

12 June 2019

Agenda Item: 11

REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

CIPFA STATEMENT ON THE ROLE OF THE HEAD OF INTERNAL AUDIT

Purpose of the Report

1. To bring to Committee's attention the Chartered Institute of Public Finance and Accountancy (CIPFA)'s updated statement on the role of the Head of Internal Audit (HIA) in public service organisations, and to consider any implications for the arrangements and practices at Nottinghamshire County Council.

Information

2. The CIPFA statement represents best practice for internal audit in local government. CIPFA is the relevant internal audit standard setter in respect of local government across the UK. It works with the other relevant standard setters for internal audit in the public sector to agree common standards.
3. The statement is not just targeted at the HIA in a local authority, but also at the authority's leadership and members of its audit committee. Through this statement, CIPFA aims to assist local authorities in supporting their HIA and to drive up audit quality and governance arrangements. The aim of the statement is to set out the role of the HIA in public service organisations and to help ensure organisations engage with and support the role effectively.
4. The statement sets out five principles that define the core activities and behaviours that should characterise the HIA role. It also identifies the organisational arrangements needed to support the role. CIPFA suggests that successful implementation of the statement's principles requires an appropriate set-up in terms of: the organisation; the HIA role; and the individual performing the role.
5. The HIA role at this Council is delivered by the Group Manager – Assurance. A self-assessment of our arrangements against each of the principles is set out below. This largely confirms that effective arrangements are already operating, but some opportunities for further improvement are highlighted.

Principle 1

The HIA plays a critical role in delivering the organisation's strategic objectives by objectively

assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control

Organisational responsibilities	Core HIA responsibilities
<p>The NCC Internal Audit Charter is approved by the Governance & Ethics Committee and confirms the arrangements the senior leadership has made for delivery of the internal audit service in the Council, particularly in terms of:</p> <ul style="list-style-type: none"> - the responsibilities of the leadership team for internal audit - the responsibilities of the HIA and the independence of the role within the Council - the arrangements for working independently of, but in consultation with, external audit - establishing clear lines of reporting by the HIA to the leadership team and to the Governance & Ethics Committee and its Chairman - reporting by the HIA in his own right, including the HIA's annual internal audit opinion <p>The Council has formally adopted an assurance mapping process. This confirms:</p> <ul style="list-style-type: none"> - how the internal audit service works with other providers of assurance - how the assurance framework supports the Annual Governance Statement and internal audit's role within it 	<p>The HIA confirms arrangements are in place to ensure that:</p> <ul style="list-style-type: none"> - internal audit's work is risk-based and will support the annual internal audit opinion - the annual internal audit opinion is evidence based <p>The assurance mapping process now strengthens arrangements for ensuring Internal Audit directs its resources in areas where it will add the most value.</p>

Opportunities for improvement:

The Internal Audit Charter should be updated to reflect the additional responsibilities the HIA now has in the post of Group Manager – Assurance, along with the safeguards in place to preserve independence and objectivity.

Internal Audit's termly plans may be more clearly expressed in terms of:

- how it aligns to the Council's strategic objectives
- the extent of alternative sources of assurance on which reliance will be placed
- the resources and skills needed to deliver the planned work.

The HIA's annual opinion may be more clearly expressed in terms of the three linked elements of risk management, governance and internal control arrangements in the Council.

Principle 2

The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance and commenting on responses to emerging risks and proposed developments

Organisational responsibilities	Core HIA responsibilities
<p>The Council demonstrates its top level commitment to the principles of good governance through the work of the Governance & Ethics Committee, as evidenced in its annual report, and through the engagement of the</p>	<p>The HIA is pro-active in working with senior management and the Governance & Ethics Committee to promote and support good governance in the Council.</p>

<p>Corporate and Extended Leadership Teams in its approach to updating and maintain the Governance Statement.</p> <p>The senior management in the Council frequently engages with Internal Audit to seek its advice and consultancy in relation to emerging risks and major developmental projects, and the advice offered is taken into account by providing formal feedback and responses to issues raised.</p>	<p>The work of Internal Audit is focused on the risks to good governance.</p> <p>Internal Audit has a strong track-record of engagement on new programmes and projects to advise on risk and control issues.</p> <p>The Internal Audit team promotes and practises the highest standards of ethics based on integrity, objectivity, competence and confidentiality.</p>
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Opportunities for improvement:

Recent resourcing difficulties have restricted the Internal Audit Team's capacity for engaging with as many major projects and programmes as has been the case in former years. The Group Manager – Assurance is developing an assurance framework for high governance programmes and projects, based around the principle of mapping its own assurance capacity with assurance activity at the second line of defence.

A more explicit focus of Internal Audit's termly plans on the strategic objectives of the Council should ensure that sufficient resource is allocated to developmental projects.

Principle 3

The HIA must be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee.

Organisational responsibilities	Core HIA responsibilities
<p>The leadership team has designated the Group Manager – Assurance as the HIA for the Council, who reports directly to the s151 Officer, a member of the Corporate Leadership Team.</p> <p>The HIA is sufficiently independent within the Council structure in order to effectively provide credible challenge to the management team, who welcome this input</p> <p>The Governance & Ethics Committee has direct responsibility for overseeing and encouraging the work of Internal Audit. The Chairman of the Committee and the HIA maintain a professional and effective working relationship.</p> <p>The HIA is afforded unfettered access to the Chief Executive and all levels of senior management. The HIA is granted regular slots at meetings of the Corporate and Extended Leadership Teams for routine reporting and is able to schedule additional slots if the need arises.</p> <p>The HIA's access to all records and employees in the Council is established and enforced.</p>	<p>The HIA has ensured the Internal Audit Charter establishes appropriate reporting lines and facilitates engagement with the Corporate Leadership Team and Governance & Ethics Committee.</p> <p>The HIA makes use of his unfettered access to senior managers and Members by raising issues on both a routine and ad hoc basis.</p> <p>The HIA contributes to reviews of the effectiveness of the Governance & Ethics Committee and consults with the Committee on the content of its termly plans.</p>

<u>Opportunities for improvement:</u> The HIA will implement a formal stage of consultation with the Committee Chairs and Opposition Group Members in drawing up its termly plans.	

Principle 4 The HIA must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively.	
Organisational responsibilities	Core HIA responsibilities
<p>The HIA post is established at an appropriate level in the staffing structure</p> <p>The Internal Audit Team's budget provides for the resources, expertise and systems required for the HIA to perform the role effectively.</p> <p>The Governance & Ethics Committee actively engages in reviewing the performance of the Internal Audit Team and oversees its quality assurance and improvement programme.</p> <p>An external review of the Internal Audit Team was conducted in March 2018, in accordance with the Public Sector Internal Audit Standards (PSIAS).</p>	<p>The HIA leads and directs the in-house Team in accordance with PSIAS and engages with Members and senior managers to ensure the service is adding value to the Council.</p> <p>In recent reporting periods, the HIA has kept the Governance & Ethics Committee and senior management aware of recruitment difficulties and the actions being taken to address them.</p> <p>The training needs of the Team's staff are kept under regular review, both in terms of individuals' requirements and collective needs. There has been a recent focus on data analytics and counter-fraud training.</p> <p>The HIA and his staff actively keep abreast of developments in the internal audit profession and look for opportunities to identify and apply best practice approaches.</p>
<u>Opportunities for improvement:</u> Nothing additional identified. Actions are already in hand to address the recruitment difficulties the Team has been experiencing.	

Principle 5 The HIA must be professionally qualified and suitably experienced.	
Organisational responsibilities	Core HIA responsibilities
<p>The Council requires a professionally qualified HIA to lead the in-house team and expects the postholder to deliver the service in accordance with PSIAS.</p> <p>The Council's recruitment process assesses the suitability of applicants for the HIA role.</p> <p>The HIA's line manager actively encourages the postholder to continue his professional development in the role.</p>	<p>The HIA is a CIPFA qualified professional and is active in continuing his professional development.</p> <p>The HIA is aware of the requirement to adhere to professional internal audit and ethical standards.</p>
<u>Opportunities for improvement:</u> Nothing further identified.	

6. The CIPFA statement goes on to set out the personal skills and professional standards of the HIA that are necessary to support the above principles in practice. These skills and standards are already reflected in the Employee Performance & Development Review (EPDR) for the HIA, and the input of the Chief Executive and Chairman of the Governance & Ethics Committee is sought by the Service Director – Finance, Infrastructure & Improvement when carrying out the EPDR of the Group Manager - Assurance. This year's process will be developed further to ensure:
- The skills and standards against which the Group Manager – Assurance is assessed fully reflect the requirements proposed in the CIPFA statement
 - Wider feedback on the performance of the Group Manager – Assurance in delivering the HIA role is sought from more senior managers and Members to identify further ideas for development.

Other Options Considered

7. None; the CIPFA statement represents best practice for the HIA role.

Reason for Recommendation

8. To enable the Committee to assess whether any changes to the Council's local governance framework should be recommended in light of the NAO findings.

Statutory and Policy Implications

9. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

- 1) That Committee approves implementation of each of the actions identified under 'Opportunities for improvement' and determines whether there are any further actions it wishes to see taken to ensure compliance with the CIPFA statement.

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For any enquiries about this report please contact:

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Constitutional Comments (KK 29/05/2019)

The proposal in this report is within the remit of the Governance & Ethics Committee.

Financial Comments (CSB 29/05/2019)

There are no specific financial implications directly arising from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All