

# leading internal audit in the public sector

Putting Principles into Practice



## **CIPFA and Internal Audit**

CIPFA plays a lead role in local government as the standards setter for internal audit, governance and financial accounting. As an accounting institute it provides professional training in public financial management and post qualification training and development. CIPFA represents the sector as a commentator on public finance policy and issues.

CIPFA has an Internal Audit Special Interest Group involving internal audit practitioners. The group played a major role in the development of the statement, commenting on drafts and ensuring that it reflected current issues faced by heads of internal audit. CIPFA is a member of the Internal Audit Standards Advisory Board alongside the other relevant internal audit standard setters. Diana Melville is CIPFA's representative on the board.

The CIPFA Better Governance Forum provides events and briefings to internal auditors in the public services. Other CIPFA services for internal auditors include TISonline, benchmarking, publications and external quality assessments against the Public Sector Internal Audit Standards.

## **Head of internal audit**

The executive responsible for the organisation's internal audit service, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion. This could be someone from another organisation where internal audit is contracted out or shared with others. In PSIAS this role is referred to as the chief audit executive.

# \ introduction

The 2019 edition of the CIPFA Statement on the Role of the Head of Internal Audit recommends how the role operates in practice to deliver high quality internal audit leadership. The aim of this publication is to provide examples of how heads of internal audit are successfully working with their organisations to put the recommended principles into practice.

CIPFA hopes that this will support both heads of internal audit and those they work with such as members of the leadership team or the audit committee in their adoption of the principles and show the way for all those working in internal audit.

The case studies have been grouped across the five principles of the Statement, although many support more than one of them. They are drawn from heads of internal audit working in local government, health and police and demonstrate effective leadership in internal audit across the public services.

CIPFA is grateful to all those who have provided case studies for this publication.

# \ principle 1

The head of internal audit (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.

## Developing internal audit planning to support auditing at the speed of risk

### **Peter Frost, Head of Internal Audit**

Suffolk County Council's head of internal audit recognised that the challenges facing local authorities with reduced resources and increasing risk meant that a change to audit approach was required. With only 7.5 full time equivalents, the team was one of the smallest for a county council and therefore the challenges facing the team in providing a robust annual opinion was even more pronounced.

This meant the need to re-design how the internal audit service was delivered, whilst satisfying the needs of the corporate leadership team, audit committee and complying with the PSIAS.

Two distinct changes in ways of working have been introduced to overcome the challenges.

Firstly, a flexible approach has been developed to plan audit work. A set annual plan, or even quarterly plans, had proved to be restrictive and did not enable emerging risks to be taken into account. Therefore, an innovative, more fluid approach to planning was introduced. The approach uses a risk-based planning tool, aligned to the council's priorities, objectives and key risks which determines each 'next' piece of audit work. In developing this, the head of audit set out to the audit committee how the planning requirements of PSIAS were met (endorsed through a successful external quality assessment from CIPFA). In simplistic terms, the planning process is approved by the audit committee but they are not given an annual plan to approve.

Secondly, resource has been dedicated to creating maps of different service areas, building an assurance framework of the organisation. This approach enables the head of audit to provide a more robust opinion as resource is mapped out against the 'three lines of defence', enabling assurance to be drawn from different sources. This serves two purposes: it enables resources to be utilised more efficiently and it highlights areas where assurance has not been gained. This would feed into the risk-based planning tool as intelligence in determining audit work.

Peter believes that to be fully effective the team must audit at the speed of risk. "Our audit work includes new and emerging risks and it is being carried out and delivered at the right time for the authority. It provides greater confidence to me in being able to provide a stronger, more meaningful, year-end opinion."

The approach has received positive feedback throughout the council. Internal audit is now tuned to the 'pulse' of emerging risks in the changing public-sector environment. The way of working has engaged all team members, empowered them to contribute to the planning process and increased their awareness of change and risk identification techniques. The team has found that guidance issued by various bodies and organisations on emerging auditable risks has already been identified and either audited or ranked within the planning tool, placing the team at the forefront of internal auditing.

## Providing assurance over cyber security

**Karan Wheatcroft, Operations Director**

Cyber security is one of the biggest risks facing any organisation and with recent examples of ransomware and data thefts in the public services it is an important areas for internal audit to provide assurance on. It is a challenging area for internal audit to provide assurance on as new threats emerge.

The agency ensures that IT risks are addressed within its audit plans. In particular, its cyber security services are focused on building and assuring a 'defence in depth' model which supports an organisation to develop policies, educate its workforce, build in security by design, test and assure controls, infrastructure and practices and provide a robust incident response and forensic capability.

Karan Wheatcroft is Operations Director for Mersey Internal Audit Agency (MIAA) and head of internal audit for a number of public sector bodies, including health bodies and local authorities. MIAA worked with their clients to develop and deliver a cyber security assessment programme that included penetration testing and phishing exercises. Given the risks associated with cyber threats these programmes have been included within internal audit plans.

The exercises highlighted weaknesses in security and demonstrated that unauthorised access would have been achievable. The phishing exercises resulted in a significant number of users exposing their network logon credentials and subsequently opening attachments which could, if malicious, have been a launch pad for malware. These exercises, along with their associated improvement plans, are providing a basis for organisations to significantly improve their cyber defences.

# \ principle 2

The head of internal audit (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.

## Introducing an 'organisational infrastructure' approach to governance, risk and control

**Rob Winter, Head of Internal Audit**

South Yorkshire Police had had a good risk management approach but the environment of their risks and issues had changed. Their approach was no longer fit for purpose. The senior command team recognised this as part of their improvement journey and embraced a new approach suggested by the head of internal audit. The approach provides a focus on the true strategic framework of governance and control through a series of domains that determines accountabilities and ensures compliance. It also encourages the 'top table' to have an oversight on the basic control framework to reflect the fact that it has strategic importance for the organisation's success.

The 'organisational infrastructure' approach has identified the key governance/control domains under the ownership of a senior team strategic lead and a tactical lead, the head of service/function. The high level controls have been identified and an honest assessment made of the extent to which the controls exist and how well they are complied with. Actions have been identified and will be managed through senior command team oversight and the joint independent audit committee.

Issues are captured as strategic concerns and areas of focus as a departure from a traditional risk approach. These issues or concerns may have strategic implications and certainly be of corporate significance, but they will be transient, they will be identified, managed and sorted.

Rob considers that it's been a powerful change: "It's highlighted gaps in the control framework and recognised where compliance could be better. The assessment shows the reasons for non-compliance and importantly its highlighted accountabilities, namely that governance and control responsibilities are everyone's duty."

*Rob and South Yorkshire Police were the winners of the 2018 Public Finance Awards for Innovation in Governance.*



**Good governance is the cornerstone of any effective and ambitious organisation.** 

## Supporting the development of governance arrangements and an ethical culture

**Peter Hammer**, Head of Internal Audit

At North East Lincolnshire Council the head of internal audit is recognised as a key source of advice and support on governance and control issues. It is also recognised that the head of internal audit's role goes beyond assurance work but also includes promoting effective internal control and helping to develop ethical cultures across the organisation.

Some of the key initiatives include:

- The head of internal audit carrying out an annual audit for the chief executive; testing out the council's culture and ethical governance arrangements. This has involved designing testing schedules based on the latest research on organisational culture and carrying out facilitated workshops. The outcome of this audit is reported annually to the leadership team by the head of audit and has played a key role in promoting and strengthening the council's values.
- The setting up of assurance board, chaired by the chief executive, of which the head of internal audit is a member. The board meets monthly and is a forum to review emerging issues which may impact on the council's control environment and to allow mitigating action to be taken.
- The development of the *Manager's Guide to the Control Environment* by the head of audit which summarises the key aspect of internal control, managers' specific responsibilities for maintaining an effective control environment and signposting them to where they can get support. This document is regularly promoted at the leadership team.

Rob Walsh, Chief Executive said "Good governance is the cornerstone of any effective and ambitious organisation operating in a volatile, complex and constantly changing environment. Those officers charged with governance responsibilities must have a strong, credible and meaningful working relationship. That includes the working relationship between the chief executive and the head of internal audit. I am pleased to say that is the relationship that has developed well in North East Lincolnshire in recent years".



The assessment has highlighted gaps and shown that governance and control responsibilities are everyone's duties. 



## Supporting the development of an effective audit committee

**David Harwood**, Head of Internal Audit

An effective audit committee is important to the governance of any public sector body. This was recognised by Huntingdonshire District Council head of internal audit. In 2008, he proposed to the chair of the audit committee that its members should undertake a review of the committee's effectiveness, with the aim of identifying any opportunities for improvement.

The first review was held via a workshop attended by all the members, the head of internal audit, the section 151 officer and representatives from the external auditors.

The workshop was led by the head of internal audit and went through 70 questions covering the committee's terms of which had been circulated in advance. The questions were based on CIPFA's best practice documentation of the time, supplemented by best practice within the NHS and private sectors. There was a robust discussion with both members and officers challenging each other's perceptions as to the effectiveness of the audit committee.

As a result of the review an improvement plan was prepared and agreed by the committee. The plan highlighted the issue of concern, the audit committee's response, proposed action and time frame. Progress in delivering the action plan was reported back to the audit committee on a regular basis.

Since 2008, six similar reviews have taken place. The reviews have provided a real opportunity for the head of internal audit to speak candidly with members outside of formal committee meetings and allowed them to hear his views and opinions on a range of issues. This has enhanced the independence of the function and developed both trust and respect between the audit committee and the head of internal audit.

## Advising on the terms of reference of the audit committee and its role within the authority

**Robert Hutchins**, Head of Internal Audit

In these times of austerity it is only right that organisations should consider the benefit of all that they do. Dartmoor National Park Authority looked at what it does, how it does it and how it should be doing things going forward. One area that it recently reviewed was the audit and governance committee.

The committee's terms of reference needed a refresh. The timing of the meetings had become troublesome and both members and senior management were questioning its role and value. Questions were being asked about whether the committee was needed or if its functions could be subsumed into other committees.



**Reviews provided a real opportunity to speak candidly with members outside the formal committee meetings.**





## The report was well received by the trust board and provided a clear action plan to address issues. ”



The head of internal audit worked with the section 151 officer to compare the terms of reference with similar organisations. They looked to identify ‘best practice’ that would help formulate future committee structures.

They developed a business case for the continuation of a separate, independent audit committee and developed and revised the terms of reference so that the committee added value and contributed to the operational and strategic governance of the authority.

Once updated terms of reference had been prepared, internal audit worked with the section 151 officer to train senior management and committee members on their role, particularly in providing challenge and assurance to the authority on risk management, governance control and financial arrangements.

Recognising that audit committee members may not always have a financial, risk or audit background the complexity depth and technical nature of reports can often be intimidating. The training focused on a ‘year in audit’ and covered the reports that the committee would receive from management and assurance providers (internal and external). It explained the purpose of each report, how it helped build up the overall level of assurance over a year, and helped focus on the reassurance that members should be seeking and the questions that they could ask to gain this. The training included real examples to help demystify the topic and show how constructive challenge from the committee can be effective in leading to improvements.

Feedback from members, and senior officers, was that the training was very useful. The role of the audit and governance committee is now clear and the value that the committee can add is more apparent.



## Providing advice and assurance on new developments

**Karan Wheatcroft, Operations Director**

The landscape for service provision is continuing to change in the public services. Within the health sector foundation trusts are using new delivery models to support the provision of optimal care. One trust had entered into an innovative joint venture arrangement with a large multi-national private sector healthcare provider to provide an enhanced private patient experience. Trust executive directors formed part of the joint venture board and were keen to seek independent support and assurance on the governance arrangements.

The internal audit team was requested to provide advice as to the adequacy of the governance arrangements in place around the joint venture and to consider whether the trust board was receiving sufficient and accurate information.

The head of internal audit decided that this work should be undertaken within the core risk based audit plan. There was a significant reputational risk to the trust in the event of failure or poor performance as well as financial risks in the event of the non-receipt of anticipated income.

The review highlighted key weaknesses in the governance arrangements and the absence of a defined risk management system. The resulting report was well received by the trust board and provided a clear action plan to support executive directors to proactively address the issues raised. The audit committee chair commented that it was 'one of the best pieces of internal audit work he had read'.

In addition to the high profile and interactions within the trust, the head of internal audit liaised closely with the trust's external auditors as there were a number of areas of shared interest due to the profit sharing arrangements in place and their impact on the trust's annual accounts.



# \ principle 3

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

## Developing effective working relationships between the chief executive and the head of internal audit

**Peter Hanmer, Head of Internal Audit**

At North East Lincolnshire Council the chief executive and the head of internal audit have developed a close working relationship over a number of years. They have worked closely together on a range of governance and internal control issues, and the head of internal audit regularly provides advice when required, on matters such as on culture, transformation and the governance of partnerships. As well as engaging directly with the chief executive on specific audits the two roles have quarterly one to one meetings to discuss governance issues and the head of internal audit is encouraged to be open about any observations. In addition the head of internal audit is regularly invited to attend senior leadership team meetings to discuss things such as the audit plan. The chief executive meets with the internal audit team as a whole at least once a year to be kept informed of the council's strategic direction and the key issues they need to be aware of.

The head of internal audit is also a member of the council's assurance board which is made up of senior managers responsible for governance. The group meets monthly to review the council's risk register, governance framework (including the annual governance statement) and the operation of its control environment. Findings are reported back to the senior leadership team and individual directors and have played a key role in raising the importance of governance and internal control throughout the organisation.



**Technical knowledge remains essential to allow the auditor to undertake reviews – through softer skills, internal audit can make a difference.**



## Establishing regular and open engagement with the leadership team

**Amanda Roberts, Head of Internal Audit**

At Ceredigion County Council the head of internal audit has free and unfettered access to the chief executive and those sitting on the leadership group. The role is encouraged to provide reports and presentations at the group's weekly meetings.

This support is fundamental as a way of ensuring the role is undertaken effectively. This year the leadership group has actively promoted awareness of audit's annual strategy and plan, and has encouraged lead officers to invite the head of internal audit to their managers' meetings and other events such as workshops and head teachers' training days to discuss how internal audit can add value to their services.

The chief executive of Ceredigion County Council feels that internal audit has played an important part in providing assurance and advice on a service and corporate level. The head of internal audit is currently widening internal audit's focus to include more value for money audits, which will help managers identify further efficiencies, which the chief executive fully endorses.

Having this backing also ensures the internal audit role has available a high-level forum when seeking co-operation on corporate exercises such as co-ordination of the National Fraud Initiative and assurance mapping.

Having the backing also provides confidence to the head of internal audit when challenging managers that required actions and recommendations will be addressed, and the knowledge that any escalated concerns will be dealt with by the chief executive. Dealing with an issue quickly can avoid the need for it to be referred to the audit committee.



**Internal audit has played an important part in providing assurance and advice on a service and corporate level.** 

# \ principle 4

The head of internal audit (HIA) must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively.

## Collaborative working arrangement for internal audit and counter fraud between Salford and Warrington councils

**Jean Gleave**, Head of Internal Audit

Salford and Warrington entered into a collaborative arrangement for internal audit in May 2015. A shadow arrangement operated for a year and then the arrangement was placed onto a permanent footing with the head of internal audit employed by Warrington but splitting time equally between the two councils. Given the continued pressure on budgets for both councils a decision was made to share a principal auditor post. The arrangement has therefore generated income for Warrington and was a cost effective solution for Salford's requirements.

The overall aim of the collaboration was to address resource shortages, share skills effectively in the two internal audit teams and support both councils to achieve efficiency targets whilst maintaining high quality internal audit.

The head of internal audit was able to identify a number of areas where resources and knowledge could be shared between the two teams:

- Joint reviews of systems identified areas of good practice to be shared across the two organisations and provided an opportunity to exchange ideas and working practices. This continues by specialising in areas such as information governance and, health and social care – making best use of specialist knowledge rather than duplicating knowledge base.
- Joint reviews with health internal audit teams had been undertaken by the Warrington team since 2014/15. Learning from these reviews was shared with the Salford internal audit team.
- The schools audit programmes used by each authority were reviewed and compared by staff involved in the schools' reviews from the two teams. Areas of good practice were shared and the audit programme was revised to ensure relevant areas were covered in an efficient and effective way.
- Terms of reference for reviews, test schedules and reports were shared between the two teams and common protocols developed. This provided a resource and information pool as staff approached new areas of work. This also provided common working protocols across the teams that improved operational efficiency.

Support to the audit committee is now a common approach within the two organisations.

To date both councils still operate with two internal audit teams and each team has an audit manager to provide local day to day management support. The two audit committees like to have their own team but also appreciate the benchmarking across the two organisations and the sharing of knowledge and good practice. The shared head of internal audit has a good presence in both organisations and is available for members and senior managers. The collaboration has led to a more resilient internal audit service with experienced well qualified staff and good mix of skills.

## Developing the internal audit team

### Luned Fôn Jones, Head of Internal Audit

The head of internal audit at Gwynedd Council focused on developing the 'soft skills' necessary for the modern internal auditor amongst the internal team. The team completed details on an online tool which then delivered individuals with a personalised workplace profile report. The main objective for carrying out the review was to improve working relationships and recognise any communication needs within team members.

The head of internal audit gained the Institute of Leadership and Management qualification in Coaching and Mentoring, and then trained all members of the team on the topic. Members of the team have gone on to achieve qualifications in other areas including change management, emotional intelligence, time management and conflict resolution. Where possible the council has used free training courses available under a Welsh Government initiative Academi Wales.

The head of internal audit invests in professional development, attending audit events including those provided by CIPFA Wales and North West regions and the CIPFA Better Governance Forum. Several members of the team are currently on the AAT Apprenticeship Scheme and one was nominated by her tutor for student of the year award.

The value of this training has been recognised by the council. Dewi Morgan, Senior Manager, Finance Department, Gwynedd Council has always seen the development of 'softer skills' as being a key part of an internal auditor's professional training. "Whilst technical knowledge remains essential to allow the auditor to undertake an objective review and identify areas for improvement, it is through the application of the softer skills that internal audit can really make a difference, through enhanced communication and persuasion skills".



**Collaboration has led to a more resilient internal audit service with experienced well qualified staff and good mix of skills.**



## Output-focussed, quality assurance and improvement programme

**Chris Pyke**, Head of Internal Audit

The head of internal audit at Cardiff Council has developed a Quality Assurance and Improvement Programme (QAIP) that is built around a performance management approach which involves 'setting expectations', 'reviewing performance', and 'reporting performance' at individual auditor and team levels.

**Setting expectations** – *With clear expectations in place, auditors can focus on delivery.*

This process starts by establishing personal goals and objectives (delivery, training and development) for each auditor in recognition of the individual and collective skills needed to deliver the risk-based plan effectively over the current and medium-term. Each auditor is then given a quarterly allocation of work, which is stretching but achievable, that they are responsible for delivering effectively and on time. As a means of support, an audit 'pit stop' has been established as a short and sharp review by a senior team member of progress against the audit objectives when half of the audit time is used. This can either result in assurance that the audit is being delivered effectively, or it leads to expectations being re-set, with actions developed for the auditor to conclude a high quality audit engagement on time.

**Reviewing performance** – *Expectations are revisited in quality assurance and control reviews.*

Each auditor attends a monthly monitoring meeting, through which the delivery of their audit allocation is reviewed, issues are identified and addressed. Each audit is subject to a quality assurance review by a member of the audit management team, to ensure high quality delivery in accordance with PSIAS. A post audit assessment is also undertaken at the conclusion of each audit. In the assessment the auditor and a senior team member review the auditor's performance against best practice technical and behavioural qualities. A client satisfaction survey is also used to identify the audit delivery and value from the client's perspective with any development needs identified and progressed. Overall performance and delivery of personal goals and objectives are reviewed every six months.

**Reporting performance** – *A range of performance measures are used for reporting and review.*

A range of performance measures are used for regular review by the head of internal audit and reporting to the audit committee. On an annual basis, the head of internal audit reviews and reports on the application and findings of the performance management framework that underpins the QAIP to the audit committee. An external assessment of conformance with the PSIAS is completed and reported at least every five years.

The approach has benefitted auditors to take accountability for delivering their work, with key support points in place. As the approach is starting to embed, the greatest improvement is in the quality and completeness of audit evidence and draft reports upon quality assurance review. Client satisfaction rates are strong, and the team's overall output is improving.

# \ principle 5

The head of internal audit (HIA) must be professionally qualified and suitably experienced.

Heads of internal audit might share many things in common, a professional qualification and a wealth of experience for example but their route to a head of internal audit position might be very different. Some heads of internal audit worked as professional internal auditors, others moved into internal audit after working as an external auditor or as an accountant. Many have additional areas of expertise such as risk management or counter fraud management. Others have specialist skills in IT audit or contract audit.

Maintaining and expanding skills and keeping up to date with current risks and challenges impacting on the public sector is vital for heads of internal audit as well as for all members of the internal audit team. Participation in regional groups or volunteering to support the profession has proved to be an excellent way for many heads of internal audit to support their own professional development, to network and explore new opportunities.

## Developing the head of internal audit's experience and expertise

**Stephanie Donaldson, Group Chief Internal Auditor**

Principle 5 states that the HIA must be professionally qualified and suitably experienced, a criteria which one could assume would be met by the development of an appropriate role description, person specification and robust recruitment process.

However, once in the role, it can be difficult to ensure that your knowledge and skills remain relevant and up to date. Attendance at CPD events and training, or local HIA networking groups is one way of achieving this. Professional volunteering is another. In recent years the head of internal audit role has expanded in many organisations to include areas such as risk management, information management, scrutiny and others and the demands of the role can mean that finding time to attend such training and events can itself, be challenging.

The Government Internal Audit Agency encourages colleagues to undertake professional volunteering and staff are given up to five days of paid leave per year to volunteer. This gives a clear message that the value of volunteering is recognised and demonstrates the agency's investment in widening people's skills.

On a personal level professional volunteering can also be hugely rewarding. “I volunteer for CIPFA’s NW Region Council which organises a number of CPD events for members and students during the year.” Stephanie explains, “I also chair a CIPFA TISonline editorial board and through this became a member of the CIPFA IA Special Interest Group and Ethics Working Group. Through my involvement with these groups I have made friends, extended my professional network, become an events organiser and gained a wider understanding of the challenges faced by financial and audit colleagues alike across the public sector, which in turn, I think has made me a more rounded finance professional.”

Of course, professional volunteering does not have to be restricted to within the CIPFA network. Stephanie was until recently a trustee for a local charity and has been an audit committee member, which gave different perspective and challenged her. “I genuinely believe that taking these opportunities has broadened my experience and enhanced my professional qualification which has helped me to perform better in my day job.”



**Maintaining and expanding skills and keeping up to date with current risks and challenges impacting on the public sector is vital.**





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