

**CIPFA Better Governance Forum****Audit Committee Update**

-helping audit committees to be effective

**Issue 16**

- **What Makes a Good Audit Committee Chair?**
- **Governance Developments in 2015**

**March 2015**

## Introduction

Dear audit committee member,

Welcome to Issue 16 of our briefings for audit committee members in public sector bodies.

It has been produced by the CIPFA Better Governance Forum and is free to our subscribing organisations. Its aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role.

This issue's main article focuses on skills rather than knowledge and highlights the important role played by the audit committee chair. The skills needed by an audit committee chair are those needed by chairs of other committees, but there are also aspects that are of particular importance if the committee is to have influence and impact. In particular I would highlight the importance of ensuring the independence and objectivity of the committee and a willingness to follow through on issues and recommendations raised with the committee.

I hope you will find this issue helpful. We welcome feedback on these briefings and suggestions for future topics. Please let us know if we are getting them right.

Best wishes

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## Receive our Briefings Directly

This briefing will be sent to the main contact of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be sent to all audit committee members. If you have an organisational email address (for example [jsmith@mycouncil.gov.uk](mailto:jsmith@mycouncil.gov.uk)) then you will also be able to register on our website and download any of our guides and briefings directly. Register now, please click here <https://www.cipfa.org/Register>.

## Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. The earlier issues are on the archive site. Click on the links below to find what you need.

Issue	Principal Content	Link
Issues from 2010		
1	Reviewing the Audit Plan – Please note that Issue 13 provides an updated review of this topic.	<a href="#">Issue 1</a>
2	Reviewing the Annual Governance Statement	<a href="#">Issue 2</a>
3	Countering Fraud	<a href="#">Issue 3</a>
Issues from 2011		
4	Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	<a href="#">Issue 4</a>
5	Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA's Survey of Audit Committees in Local Government	<a href="#">Issue 5</a>
6	Partnerships from the Audit Committee Perspective	<a href="#">Issue 6</a>
Issues from 2012		
7	Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	<a href="#">Issue 7</a>
8	Commissioning, Procurement and Contracting Risks	<a href="#">Issue 8</a>
9	Reviewing Assurance over Value for Money	<a href="#">Issue 9</a>
Issues from 2013		
10	Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	<a href="#">Issue 10</a>
11	Local Audit and Accountability Bill, the Implications for Audit Committees Update of CIPFA's Guidance on Audit Committees	<a href="#">Issue 11</a>
12	Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	<a href="#">Issue 12</a>
Issues from 2014		
13	Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	<a href="#">Issue 13</a>
14	External Audit Quality and Independence, Government Consultation on Local Audit Regulations, CIPFA's Consultation on a new Counter Fraud Code, Regular Briefing on Current Issues	<a href="#">Issue 14</a>
15	CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, The Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments	<a href="#">Issue 15</a>

## Workshops and Training for Audit Committee Members in 2015

### **Police Audit Committees**

The Better Governance Forum and Police Network have run workshops for members of police audit committees over the past two years. These workshops provide the opportunity to receive briefings on current issues in policing, audit and governance. The workshops are a practical way to improve the focus and impact of audit committees and extend the knowledge and skills of audit committee members.

**3 June 2015, London; 4 June 2015, York**

### **Developing the Audit Committee**

A practical workshop designed to improve the focus and impact of audit committees and extend the knowledge and skills of audit committee members.

**1 July 2015, Southampton**

### **Good Governance for the Audit Committee**

Our 2015 audit committee workshops will provide a topical briefing on current issues and focus in particular on the updated framework of good governance, to be launched by CIPFA and Solace during 2015.

**2 December 2015, Chester; 3 December 2015, London. Further dates at York and Birmingham in 2016**

### **Open Training**

We will be running a number of open training events for audit committee members. These will cover introductory sessions for new audit committee members and provide the opportunity for the development of knowledge and skills.

### **Introduction to the Audit Committee**

A training day aimed at those relatively new to the audit committee or wishing to develop a better understanding of its core role and responsibilities.

**11 June 2015, London; 18 June 2015, Manchester**

### **In House Training**

In house audit committee training tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements.

For further details contact [chris.o'neill@cipfa.org](mailto:chris.o'neill@cipfa.org) or email [diana.melville@cipfa.org](mailto:diana.melville@cipfa.org) or visit the CIPFA website where we have a brochure to download outlining our services for audit committees.

# What Makes a Good Audit Committee Chair?

## Introduction

The chair is very important for the success of the audit committee. The influence of the chair can be seen in the development of the committee's agenda, the success of the meetings themselves and the influence that the committee holds within the organisation. A successful chair brings a combination of personal skills to the committee, but there must also be robust governance arrangements that allow the chair to operate effectively. This article will explore the governance arrangements, knowledge and skills that help to make a good audit committee chair.

## Getting the role right

Across the public sector the role of audit committee chair will be shaped by the appropriate governance guidance of the different sectors. CIPFA recommends<sup>1</sup> that audit committees should:

- act as the principal non-executive, advisory function supporting the governing body and be properly accountable to the governing body
- be made up of non-executive members of the governing body
- have clear rights of access to other committees/functions, corporate risk management boards and other strategic groups
- meet regularly.

If the audit committee is a sub-committee or it is not a committee in its own right then the opportunity for the committee to have influence is reduced. The committee may also be ineffective for a number of other reasons. For example, if it meets infrequently, perhaps less than four times a year, or if the membership of the committee is not sufficiently independent or skilled. However good the chair is, it is unlikely that he or she can make up for these shortcomings.

CIPFA has set out its view on what makes a good audit committee chair:

- A strong independently minded chair – displaying a depth of knowledge, skills and interest.

Ideally these characteristics will be evident from the moment of appointment, but realistically the chair is likely to need some support in training and development.

## Appointing the chair

Some chairs may be directly recruited into the role, usually where the chair is designated for a co-opted independent member (for example police and some local authorities). The chair of central government audit committees must be a non-executive board member appointed under the Cabinet Office public appointments guidance. In many local authorities the chair will be an elected councillor and the appointment will be made as part of the annual council meeting. CIPFA's guidance to local authorities is that where the chair is to be an elected councillor then that individual should not be a member of the council's executive committee or cabinet.

Regardless of how the chair is appointed it is essential that the individual is able to ensure that the committee can operate in an objective and non-political way. As part of its role the committee will be examining the adequacy of the organisation's risk and control

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<sup>1</sup> CIPFA *Statement on Audit Committees in the Public Services* (year?)  
[www.cipfa.org/services/networks/better-governance-forum](http://www.cipfa.org/services/networks/better-governance-forum)

arrangements and should be capable of expressing its views and making recommendations for improvement, unaffected by political points of view. The objectivity of the chair is an important consideration on appointment if he or she is to hold the confidence of the other members of the committee and of the governing body.

### **Knowledge and skills**

The chair should have at least the basic knowledge required of all audit committee members. The chair does not need to be a specialist; however any specialist knowledge is an asset to the committee. If the chair is being recruited then it is likely that relevant knowledge and experience will be included on the person specification. A basic understanding of the key areas on the committee's terms of reference is essential, for example the governance framework, the role of internal audit and principles of risk management.<sup>2</sup> The chair should lead the way for the rest of the committee and take the acquisition of the relevant knowledge seriously.

An effective chair is likely to have a high level of skills in the following areas:

- Planning, so that the committee can ensure its work plan covers key areas of responsibility.
- Managing meetings, so that discussion focuses on the major issues and does not get side-tracked.
- Time management, so that the committee makes best use of valuable time.
- Communication skills, particularly when summarising discussions and identifying the best way forward.

Another important area is that of attitude. However knowledgeable and skilled the chair, these benefits will be undermined by a lack of interest or enthusiasm for the work of the committee. A commitment to improve the organisation's governance and efficiency will encourage the committee to follow through on risks and control issues raised with the committee, thus helping it to have greater impact. An objective and apolitical attitude is also important for encouraging contributions from all committee members and for building trust. The chair should also be able to access professional advice to enable him or her to fulfil the role adequately. Knowing when to seek advice is a valuable skill in its own right.

### **Having an impact**

Good administrative support is essential for any committee meeting but the chair's meeting management skills will contribute much to the effectiveness of audit committee meetings. Consider the following:

- Does the meeting cover the agenda adequately? Or do important items get rushed because too much time has been spent on peripheral matters?
- Are all committee members encouraged to contribute?
- Does the chair ensure that the tone of questions is probing yet respectful?
- Are decisions and recommendations clearly expressed?
- Are outstanding matters picked up and followed through to a conclusion rather than allowed to drift or be avoided?

We can probably all think of meetings where a dominant individual has asked all the questions or where the important business has gone by with barely a question because time is running short. The effective audit committee chair will do his or her best to avoid these traps. Another area where the chair can help is encouraging or prompting other committee

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<sup>2</sup> Further details of the knowledge and skills required for audit committee members is set out in *Audit Committees, Practical Guidance for Local Authorities and Police* (CIPFA, 2013) [www.cipfa.org/services/networks/better-governance-forum](http://www.cipfa.org/services/networks/better-governance-forum)

members to attend meetings, properly prepared. This will lead to sharper questioning and greater efficiency.

The committee chair should also have a positive impact outside the meeting itself. It is not uncommon for the chair to meet more regularly with key officers outside the meeting cycle. This might involve a briefing on new developments, contributing to a working group or representing the committee at other meetings. Each of these helps to link the work of the committee to the organisation's overall objectives. Planning the work of the committee, reviewing agendas and developing an annual report on the committee's work are important for ensuring the work of the committee is focused on the right things. The chair also has a role in communicating the role and outcomes of the committee to other members of the governing body.

### **Evaluating performance/feedback**

CIPFA encourages audit committees to evaluate their own performance and has developed tools to support this.<sup>3</sup> The chair should support both self-evaluation by the committee members and also encourage feedback from those who interact with the committee. An action plan should be developed in response to any weaknesses or criticisms.

It can be difficult to ask for or obtain feedback on how effectively the chair is performing his or her role, unless an external facilitator is involved. However do encourage feedback if you can. After all the audit committee should be encouraging continuous improvement across the organisation, so why not start close to home?

Diana Melville

Governance Advisor

### **Need some help in improving your committee?**

As a BGF subscriber you have access to all the previous issues of Audit Committee Update listed on page two. The CIPFA publication also contains resources to help you assess and improve your committee. Audit committee training and facilitation is also available.

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<sup>3</sup> *Audit Committees, Practical Guidance for Local Authorities and Police* (CIPFA, 2013)  
[www.cipfa.org/services/networks/better-governance-forum](http://www.cipfa.org/services/networks/better-governance-forum)

## Governance Risk Issues for the Audit Committee in 2015

There are a number of events and emerging issues that will impact on public sector organisations in 2015. Chief of these will be the outcome of the general election and consequences for financial policy towards the public sector. The economy is another area to watch, both nationally and locally. Each organisation will also have its specific strategic risks – for example the impact of implementing new policies such as the Better Care Fund. Other risks will arise from more local factors such as a transformation project, major procurement or outsourcing. What do these risks mean for the work of the audit committee?

The audit committee is likely to receive updates on strategic and major operational risks on a regular basis. A common approach is for the committee to review in detail the risk management plans that have been put in place for an area of significant risk. This enables the committee to obtain assurance from the risk owner that there are effective risk management strategies in place or to suggest areas for further review. Engaging directly with risk owners helps the audit committee to judge how effective the organisation's risk management is in practice not just on paper. Some risks will be driven by external events, such as national government policy or national funding allocations. However, the audit committee can still consider how effective contingency planning or risk modelling might be in response to those events.

The audit committee is also likely to see the influence of strategic and major risks on the audit plan. The *Public Sector Internal Audit Standards* require the head of internal audit to establish a risk-based plan setting out the priorities of internal audit that are consistent with the organisation's goals.<sup>4</sup>

What other governance issues might be on the audit committee agenda in 2015? There will also be professional developments in good governance practice and issues affecting the assurances you receive.

<b>Development</b>	<b>Likely Timetable and Implications for the Audit Committee</b>
Review against the <a href="#">CIPFA Code of Practice on Managing the Risk of Fraud and Corruption</a> .	Anytime during 2015, although timing to support the agreement of the annual governance statement is most likely.  Counter fraud is a core function of the audit committee and assurance over arrangements should be considered as part of the governance statement process.
CIPFA's review of the good governance framework for local government.	Consultation is due in July with the final framework published in the autumn.  Local authorities will be invited to respond to the consultation and may need to adopt the new framework. Consideration of the new requirements will be required for the 2015/16 governance statement.

<sup>4</sup> *Public Sector Internal Audit Standards, 2010 Planning*, <http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>  
[www.cipfa.org/services/networks/better-governance-forum](http://www.cipfa.org/services/networks/better-governance-forum)



<p>An external assessment of internal audit.</p>	<p>This may take place in 2015 if an assessment has not been carried out. Central government and health bodies must complete one by March 2016 and local government and police by March 2018.</p> <p>The chair of the audit committee would be a likely candidate to act as the sponsor for the assessment and the results should be reported to the committee.</p>
<p>English authorities and police only:</p> <p>Early planning of how to procure external audit and whether to establish an auditor panel. There must be a panel unless the authority chooses to opt in to a procurement exercise run by the sector-led body under the Local Audit Regulations.</p> <p>CIPFA has been commissioned by DCLG to write guidance on auditor panels. This will be published in the summer.</p>	<p>If the authority is to undertake their own procurement in 2016 then they will need to establish an auditor panel before that process starts. How the panel relates to the audit committee will need to be considered.</p> <p>The possibility of police audit committees to act as an auditor panel will need review.</p> <p>The audit committee should contribute to the discussion of options, including any impact on the make-up or terms of reference of the audit committee.</p>

We will bring you updates on new developments such as these through Audit Committee Update. The next few pages include links to the latest Local Audit Regulations and details of the planned update of the good governance framework.

# Recent Developments You May Need to Know About

## Legislation and Consultations

### Accounts and Audit Regulations 2015

New [Accounts and Audit Regulations 2015](#) for local authorities in England, including police and fire bodies, have been issued. They come into effect on 1 April 2015 and apply from the financial year 2015/16. The regulations are a statutory instrument made by the secretary of state for communities and local government and are mandatory for the bodies affected.

Audit committees will be interested in the changes that affect the organisation's internal audit, the annual governance statement and the content and timetable of the annual financial statements. These areas are all core to the work of the audit committee and those responsible will need to ensure they comply with the new regulations.

Key changes from April 2015 include the following:

- The existing requirement to have internal audit has been amended to undertake an effective internal audit 'to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- There are some changes to the access rights of internal audit requiring the organisation to supply internal audit with the documents, records and information and explanations as are considered necessary by the internal auditors.
- Organisations are no longer required to undertake an annual review of effectiveness, though audit committees should note the requirements of the *Public Sector Internal Audit Standards* to have an ongoing programme of quality assessment and improvement.
- There is a new requirement for a narrative statement that includes 'comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year'. This applies to the 2015/16 accounts.

Key changes from April 2017:

- The responsible financial officer will need to sign off the accounts by 31 May in advance of the public inspection at the beginning of June.
- The annual governance statement and the accounts must be approved by the appropriate body or committee by 31 July at the latest, at which point they should be published.
- The external audit should also be complete and the audit opinion published by 31 July or 'as soon as reasonably practicable'.

### Local Audit Regulations

There have been a number of regulations issued to support the implementation of the [Local Audit and Accountability Act 2014](#). The regulations are statutory instruments made by the secretary of state for communities and local government and are mandatory for the bodies affected. There are also regulations issued by the Department of Health in respect of auditor panels to be operated by health bodies under the Act.

Bodies covered by the Act are currently required to have their external auditors in place by December 2016 in order to commence audit work for the financial year 2017/18. However, the current external audit contracts have the option to be extended to 31 March 2020. The current government is committed to ending the contracts on 31 March 2017 but a change in government may extend the contracts and in that case, authorities will not need to appoint their external auditors until some point before 31 December 2019.

The regulations cover various aspects about the role and composition of auditor panels which are a requirement of the Act if the body is to procure its own external auditor. Regulations also permit the use of an "appointed person" to operate a procurement of external audit services on behalf of a group of local authorities. Participation in the group procurement is voluntary.

The Department for Communities and Local Government has asked CIPFA to write guidance to support the establishment of auditor panels. This will be available later in 2015, depending on the current audit contracts.

Links to the most recent regulations are listed below:

[The Local Audit \(Auditor Panel\) Regulations 2014](#)

[The Local Audit \(Auditor Panel Independence\) Regulations 2014](#)

[The Local Audit \(Appointing Person\) Regulations 2015](#)

[The Local Audit \(Smaller Authorities\) Regulations 2015](#)

[The Local Audit \(Health Service Bodies Auditor Panel and Independence\) Regulations 2015](#)

There are also other regulations concerning the professional qualifications of auditors, limited liability agreements and the resignation and removal of auditors.

## Reports, Recommendations and Guidance

### **Guidance notes to accompany the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption**

CIPFA has published [Guidance Notes](#) to support the implementation of the new [Code of Practice on Managing the Risk of Fraud and Corruption](#). This publication is free to download for BGF subscribers. It explains the thinking behind the code and shares examples of good practice. CIPFA is also developing an assessment tool to support and evidence a self-assessment or audit against the counter fraud code. See also [Issue 15](#) of Audit Committee Update for more information on the role of the audit committee in relation to counter fraud and corruption.

### **Cyber threats to local government**

The Cabinet Office and DCLG have published [Understanding local cyber resilience: a guide for local government on cyber threats](#). This outlines the principal sources of threat to information held by local government, although the risks apply equally to other public bodies. The report also recommends the steps local government should take to protect its information and systems from cyber-attack.

### **Consultation, Delivering Good Governance in Local Government, Framework**

CIPFA has been consulting on how the existing governance framework and guidance have been working in practice and to see where further clarification or guidance is required. CIPFA and Solace will be reviewing the framework in 2015 to ensure that it remains "fit for purpose" and also developing a revised guidance note.

The revisions will not affect the approval of the 2014/15 annual governance statement but would apply for the following year. The recent [Accounts and Audit Regulations 2015](#) confirmed that the statements should follow proper practices in relation to accounts. It is expected that CIPFA's guidance would continue to be regarded as the proper practice.

[Consultation](#)

## **Audit Scotland annual overview report**

[An Overview of Local Government in Scotland 2015](#) reviews the financial pressures faced by local government in Scotland and emphasises the need for longer term financial planning supported by effective governance and accountability. It particularly emphasises the importance of scrutiny to good governance, including the role of the audit committee.

## **Wales Audit Office review of local government accounts**

[2013-14 Local Government Accounts](#) summarises the results of auditors' work for that financial period. While most bodies prepared their accounts on a timely basis, the Wales Audit Office identified some areas of concern. These included a rise in the number of bodies where a material amendment had to be made to the accounts.

## **Whistleblowing in the NHS**

A report [Freedom to Speak Up](#) (2015) by Sir Robert Francis has been published. It provides an independent review into creating the right conditions to encourage an open and honest reporting culture in the NHS. It includes a number of recommendations, including the appointment of "guardians" to support those raising concerns.

## **Governance in the NHS**

Grant Thornton has published a new report on the results of a survey and review work of published annual reports from NHS bodies. In the [NHS Governance Review 2015](#) the firm recommends that governance and risk management arrangements need to be more agile.

## **The adequacy of scrutiny in local government**

This theme has been picked up in a number of governance reports and is likely to be further highlighted in future reviews. The report commissioned into governance at Rotherham Council by the DCLG ([Report of Inspection of Rotherham Metropolitan Borough Council](#)) highlighted that there was little evidence of impact from the scrutiny process. The Centre for Public Scrutiny has prepared a paper for the Communities and Local Government Select Committee ([CfPS Response to CLG Committee Review](#)) backing calls for a national review of the effectiveness of local governance and scrutiny, and making recommendations for the scope of such a review.

Scrutiny was also highlighted in the most recent report on governance from external auditors Grant Thornton; see [Local Government Governance Review 2015](#).

## **Committee on Standards in Public Life inquiry into the accountability structures of local policing**

The Committee's inquiry has published [Local Policing - Leadership, Ethics and Accountability](#), a progress update on their current inquiry. The inquiry aims to explore issues relating to ethical standards and governance structures, in the key roles of police and crime panels, police and crime commissioners and chief constables.

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