

CIPFA Better Governance Forum

Audit Committee Update

– helping audit committees to be effective

Issue 12

Reviewing Internal Audit Quality

New CIPFA Publication, *Audit Committees Practical Guidance for Local Authorities and Police*

Regular Briefing on Current Issues

November 2013

Introduction

Dear audit committee member,

This issue of Audit Committee Update focuses on reviewing internal audit quality. Ensuring the quality of internal audit is an important part of the professional standards for internal audit (the Public Sector Internal Audit Standards) and is an important responsibility for your head of internal audit. From the audit committee's point of view it is an area that you need to be satisfied that appropriate arrangements are in place, underpinning the important assurance work that your internal audit team provide.

This issue also outlines the new guidance from CIPFA's *Audit Committees, Practical Guidance for Local Authorities and Police* due out next month.

As usual we also feature a round-up of legislation, reports and developments that may be of interest to audit committee members.

We have included links to resources and further information on our website. To access these all you need to do is register. Further details on how to do this are at the bottom of the page.

We welcome feedback on these briefings and also any suggestions for future topics. Feel free to contact me and let me know.

Kind regards

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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.

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Receive Our Briefings Directly

This briefing will be sent to all key contacts of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be forwarded to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website. This will give you access to governance material, guidance documents and you can receive these briefings directly.

Visit our website <http://www.cipfa.org/Services/Networks/Better-Governance-Forum> or [register](#) today.

Workshops and Training for Audit Committee Members in 2013 and 2014 from CIPFA

Improving the Standard of your Audit Committee

A new series of workshops that will explore the challenges and barriers to performing effectively as an audit committee.

2014 dates:

22 January London, 5 February Chester, 12 June Edinburgh, 9 July York, 10 July Birmingham, 4 December London

Advanced Audit Committees

Have you cracked the basics? This workshop examines the audit committee role in strategic risk management, value for money, counter fraud and assurance gathering.

20 November 2013, London, Further dates available in 2014

Essential Skills for Board Members

The role of a board member in a public sector body, featuring sessions on corporate governance, decision making, accountability and evaluating board performance.

3 December 2013 London

17 June 2014, London

<http://www.cipfa.org/events>

In-house training

We have many years' experience in delivering training in-house for audit committees.

A range of options are available including:

- Key roles and responsibilities
- Effective chairing and support for the committee
- Working with internal and external auditors
- Corporate governance
- Strategic risk management
- Value for money
- Counter fraud
- Reviewing the financial statements
- Treasury management
- Assurance arrangements
- Partnership assurance

We can also develop bespoke training to meet your needs.

For more information please contact inhousetraining@cipfa.org or speak to Diana Melville.

Internal Audit Needs You!

What have you done this year to maintain the quality of internal auditing?

Nothing? Not your job? Think again.

Asked the external auditor? Well, have a care! External audit has an explicit and specific goal – to give an opinion on your financial statements. When external audit assesses your system of internal control, it does so against criteria related to how the system helps to ensure true and fair financial statements – and it assesses internal audit in this way too.

Internal audit has a much wider purpose – it is there to assess your system of governance, how you manage risks over operations and strategic matters as well as over financial reporting, and how you then control those risks. Internal audit is there to give you a report every year, including a conclusion on the effectiveness of governance, risk management and control. Internal audit is also there to help your organisation to take action to improve how the organisation controls its risks. If you discuss internal audit with your external auditor, make sure you know the context of their remarks.

Internal audit is a profession with standards of education and of performance. It recognises that to achieve the quality of work that you deserve every day of the year, it has to have a programme to ensure that quality. This is what the Quality Assurance and Improvement Programme (QAIP) is all about – it comprises a set of activities that your internal auditors will carry out and commission and it ensures that your internal audit activity is fit for purpose.

The UK Public Sector Internal Audit Standards, introduced from April 2013 to ensure a consistent standard of performance across the public sector, include the requirement for the QAIP. This is in line with international standards for the profession of internal auditing.

You may have heard people talking about needing a costly external assessment of quality. That's not the most important aspect of this. What is important is acknowledging that quality doesn't just happen; that to be fit for purpose, you must first agree what the purpose is and what good performance looks like. After that, achieving quality every day requires good people, good processes and hard work.

So, you can expect that your internal audit team will be talking to you and all their stakeholders about what "good" looks like to you. You can expect your internal audit team to be setting out procedures and templates and expectations that help every internal auditor to do their work to the standard required. You can expect your internal audit team to take some time out to review the work of the team to check if it is in line with procedures, and, perhaps more importantly, if it actually achieves the desired outcomes.

That's what quality is all about. And, you might say, that's what management is all about too – and it is. What the QAIP does is ensure that all professional internal auditors pay attention to quality.

The QAIP must include on-going checks, an internal assessment and an external assessment. That requires professional internal auditors to take care to establish the level at which they must work, to review it every day, to conduct a more thorough review once a year and to invite every few years a knowledgeable outsider to review what they are doing as an independent check.

The annual review is a chance for the internal audit team to step back and to look at what they are doing and how they are doing it. They will look at the standards and ask

themselves: How are we applying these principles? What do our processes say? Are we following them? And, is that achieving the outcomes we intended?

The value of an external assessment really comes out when you have someone who knows about internal auditing and who has no personal axe to grind. For that reason, it is worth following the professional standards to find an "Independent and Qualified Assessor".

Your head of internal audit will be reporting to you on the programme of quality assurance and improvement. In the annual report, they'll tell you about the programme itself and about its results, or, as standards say: "a statement on conformance with" them. They can report more frequently on the on-going monitoring part of the programme, if you wish.

It's worth familiarising yourself with the expected language of these reports. Quality isn't about a binary yes/no answer. It has to mould itself to each organisation and it works best when people focus on trying to apply the principles that the standards capture. That's why we use the word "conformance", not compliance. The statement will say your internal audit department generally conforms, partially conforms or does not conform with the standards.

As an audit committee member, what can you do to help?

1. Think about what you want from internal audit.
2. Think about the value of their independent and objective but knowledgeable view of what the organisation is doing.
3. Give the internal auditors enough resources to do a good job and keep professionally up-to-date.
4. Encourage the internal audit team to take its on-going quality work seriously.
5. Ask for regular updates on the findings of the QAIP and what things the internal audit team is doing to improve the efficiency and effectiveness of its work.
6. Support the need for an external assessment every few years and take part in interviews and other parts of the assessment.

Sources of further information:

Public Sector Internal Audit Standards – a free document, available from the website of the UK Public Sector Internal Audit Standards Advisory Board. <http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

Local Government Application Note for the UK Public Sector Internal Audit Standards 2013 - The PSIAS are new and complex, and CIPFA recognises the need to provide guidance for the bodies set out above in applying them, and has produced an Application Note to provide that guidance. The CD Rom version includes a Word version of the assessment tool that can be used as part of the QAIP. Check with your head of audit if they have a copy you can access. <http://www.cipfa.org/policy-and-guidance/publications/l/local-government-application-note-for-the-united-kingdom-public-sector-internal-audit-standards-cdrom>

Jackie Cain CMIIA
Technical Manager
CIPFA

New Guidance from CIPFA for Audit Committees in Local Authorities and Police

CIPFA will be publishing a new position statement and guidance on audit committees in December 2013. This will replace the current CIPFA's publication *Audit Committees Practical Guidance for Local Authorities* and *Position Statement* which were published in 2005. Since then audit committees have become well established and a core part of good governance. During that time there have been some significant changes to governance to which audit committees have had to adapt. Taking these trends together, CIPFA felt it was timely to issue a fully revised position statement and guidance document.

The position statement sets out what CIPFA considers to be good practice for audit committees and the publication is an aid to achieving that. While CIPFA hopes that local authorities and police audit committees will review their arrangements against the new position statement, it is a recommendation and not mandatory to do so.

What's new?

The new guidance reflects developments since the original document, for example Public Sector Internal Audit Standards and Annual Governance Statements. It also provides support on a wider range of topics where the audit committee may expect to be involved, for example, assurance over value for money and counter fraud arrangements. It recognises the significant changes affecting police audit committees following the Police Reform and Social Responsibility Act 2011 and also developments in Wales with the introduction of statutory audit committees.

The publication recognises that there isn't a "one-size fits all" template for audit committees so while the publication includes an updated terms of reference, authorities are encouraged to think more widely about how their audit committee adds value and supports the organisation's objectives. An important new section on effectiveness emphasises an evaluation of the impact of an audit committee rather than compliance with a checklist. For example, the audit committee can support improvement across a range of objectives such as good governance, arrangements to secure value for money and the operation of an ethical governance framework.

What has stayed the same?

Many of the principles set out in the original position statement are unchanged. CIPFA is not recommending changes to the way most audit committees are constituted. There are a few key principles that CIPFA thinks form an essential platform on which to build a successful committee and the position statement includes these.

Additional resources

The publication includes additional resources to support those reviewing their audit committee and working to make it as effective as possible. There is additional guidance on the knowledge and skills audit committee members should have and assessment tools to help you review your arrangements. There is also an analysis of the common problems an audit committee may experience and suggestions for addressing these.

The position statement and publication will be available in December from the CIPFA website. If you have queries relating to the purchase of the publication then please contact publications@cipfa.org. If you have any queries about the latest guidance please contact me.

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Developments You May Need to Know About

- **Legislation and Regulations**

Local Audit and Accountability Bill

The July 2013 edition of the Audit Committee Update gave Audit Committee members an overview of how the provisions of the Local Audit and Accountability Bill could impact on the work of Audit Committees. As promised, this note provides a brief update.

The Bill completed its passage through the House of Lords on 24 July 2013 and received its 2nd Reading in the House of Commons on 28 October 2013. It goes into Committee on 5 November 2013 and is still expected to complete all parliamentary stages by the end of the year and receive Royal Assent early in 2014.

The government has promised to introduce amendments to the Bill to permit the creation of sector-led procurement bodies (one for principal authorities and one for smaller authorities) to appoint auditors. Authorities that opt to use such procurement bodies will not need to establish an Auditor Panel. There are clearly advantages in using sector-led procurement bodies, not least in that it will mean audit committees retaining their role in relation to external audit.

The Opposition suggested during the 2nd Reading that they might introduce an amendment during Committee stage to place local government audit committees, chaired by an independent person, on a statutory footing. This idea was raised during the Lords' Grand Committee stage and was supported by many peers from all parties, although an amendment was voted down. Peers believed that such a move would then obviate the need for auditor panels, as the audit committee could perform that function. It will be interesting to see if such a provision gains the same level of support in the Commons. If it were to become law, this could have significant implications for local authorities in terms of appointing audit committee chairs, but equally could enhance the role of audit committees in local government.

A further update will be provided in the next issue.
David Watkins, Policy and Technical, CIPFA.

The progress of the Bill can be tracked on the [Parliament website](#).

Financial Management Code of Practice for the Police Forces of England and Wales

The Home Office has issued an updated code of practice. The code refers to a number of CIPFA standards and guidance documents including *Public Sector Internal Audit Standards* (2013) and *Delivering Good Governance in Local Government: Guidance Note for Police* (2012). In establishing police audit committees the police and crime commissioner and chief constable should have regard to the CIPFA *Guidance on Audit Committees* due out in December 2013.

The code of practice comes into effect from 1 November 2013. This is statutory guidance applying to England and Wales.

[Financial Management Code of Practice](#)

Local Authority Accounts (Scotland) Regulations 2013

The Scottish Government has recently conducted consultation on new accounts regulations for Scottish local authorities. The proposed regulations will amend regulations covering publication of annual governance statements, timing of publication of the financial statements and internal audit. The proposals in these areas are in line with the Accounts and Audit Regulations already in force in England.

Key points proposed are:

- the local authority must conduct a review of the effectiveness of its system of internal control and publish an annual governance statement
- a local authority must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with recognised practices in relation to internal control
- a local authority must, at least once in each financial year, conduct a review of the effectiveness of its internal audit
- the proper officer must certify the statement of accounts by 30 June each year and submit them for audit. The authority must publish the unaudited statements of accounts on its website
- approval of the audited accounts must take place by 30 September.

It is intended that the final regulations will come into force on 31 March 2014 and will apply to the financial year 2013/14. This means that audit committees in Scotland will need to ensure that the regulations are complied with in relation to the 2013/14 accounts, annual governance statement and annual review of internal audit.

[Consultation draft of Accounts Regulations 2013](#)

• **Reports, Recommendations and Guidance**

Audit regime compliance monitoring reports

The Audit Commission conducts monitoring of their outsourced audit contracts and publishes quarterly and annual reports on the results for each of the contracted firms. The latest quarterly reports relating to 2013/14 were published in September. The reports cover a range of performance indicators including the issue of annual audit letters, quality of data returns, complaints against the auditor upheld, fee variation requests and requests to undertake non-audit work.

It is helpful for audit committees to understand the monitoring that is undertaken by the Audit Commission and to review the results for their own external audit provider.

[Audit Quality Reports](#)

Transparency International UK, Corruption in Local Government

This recent report investigated the risks and evidence of corruption in local government. It didn't find evidence of widespread corruption but it did conclude that there are conditions within local government that could enable corruption to thrive. The report is also critical that some checks and balances within local government are being reduced or removed, particularly in England. The report makes a number of recommendations to the government but also for individual local authorities, including:

- each local authority should have a nominated individual responsible for counter-corruption
- each local authority should undertake a periodic corruption risk assessment in relation to its own functions and operations
- there should be strict procedures requiring officers always to report (i) major price discrepancies among procurement bids and (ii) details of contract variations to the council's audit committee and senior management.

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- internal auditors and those conducting internal investigations should be supported to ensure adequate resourcing and independence
- elected members' declared interests must be subject to monitoring and, where appropriate, investigation.

[Corruption in Local Government report](#)

Committee on Standards in Public Life Annual Report 2012/13

The Committee's annual report outlines the work of the committee over the year but also reflects on the current evidence of standards and areas of risk. While the committee finds evidence of good practice it also highlights the need to review ethical governance and to continue to reinforce standards at the operational level. More specifically it recommends:

'Ethical issues should feature regularly on the agendas of the boards of public bodies and, where appropriate, on risk registers. All such boards should as a matter of course monitor standards of behaviour throughout their organisation, either directly or through their audit and risk committees.'

The report also expresses concern over the operation of local government standards and the committee has identified this area as one of the outstanding risks it will continue to monitor. Other risks areas it is likely to investigate include:

- how best to maintain high standards as new models of delivering public services are developed and
- the interchange between the public and private sectors (the so-called revolving door).

[Committee on Standards In Public Life Annual Report](#)

Severance agreements and confidentiality clauses – update on NAO report

The National Audit Office has published a report containing further work on severance agreements and the use of confidentiality clauses. Their findings highlight the need for:

- better guidance on the use of confidentiality clauses and special severance payments
- improved transparency and oversight to identify and address patterns of behaviour.

The original report highlighted concerns that compromise agreements could potentially interfere with genuine whistleblowing under the Public Interest Disclosure Act 1998.

[National Audit Office report](#)

Single Fraud Investigation Service update

An emerging issue is the latest proposal to form the Single Fraud Investigation Service (or SFIS) to undertake all benefit investigations as part of the universal credit development. The Department for Work and Pensions (DWP) is proposing that SFIS should be sited within the DWP rather than shared between local authorities and the DWP. If agreed this could mean that local authority fraud investigators and legal prosecutors transfer to SFIS or the Crown Prosecution Service during 2014/15. There is concern that some local authorities will have reduced capacity and expertise to tackle other areas of fraud risk such as council tax, business rates, housing and all other forms of corporate fraud as a result.

Audit committee members should consider what impact the proposals could have for their organisation's counter fraud capability.

The latest information is available by joining the LGA Knowledge Hub. Alternatively the following article summarises the new position. [SOLACE briefing on SFIS](#)

- Look out for

Protecting the Public Purse

The Audit Commission report will be published on 14 November. The report is based on their annual data collection on fraud from English local authorities and gives valuable insight into the experience of fraud and emerging fraud risks in the sector. It will be available from the [Audit Commission website](#).

Fighting Fraud Locally update and conference

Registration is now open for the third annual conference in London on 10 December. It will update on progress made over the year and consider the next steps for tackling fraud in local government. Details of the conference are available here:

<http://fightingfraudlocally.co.uk/>

[Download the Fighting Fraud Locally Strategy](#)

Whistleblowing Commission Report and Recommendations

Public Concern at Work will be publishing the report of the Commission on 27 November. Details will be available on the [Public Concern at Work website](#).

The Audit Committee Cycle

Take stock of your assurance needs

Mid-way through the year it is helpful to take stock of the assurances planned, received and any emerging issues. Audit committees usually plan their agendas for the year to ensure that they are covering all the appropriate areas in their terms of reference and it is likely that the committee will have received regular updates or monitoring reports on assurance. For example you are likely to have had progress reports from internal audit outlining work done to date and performance against the audit plan and there may be regular reports outlining current risks or progress against action plans or strategies.

It is important to keep track of changes to ensure that adequate assurance is received to support the fulfilment of the committee's terms of reference and to underpin the annual governance statement. The committee should also be made aware of any resourcing issues that could impact on the head of internal audit's annual opinion.

Where any significant governance, risk or control issues emerge during the year the audit committee may need to re-assess their need for assurance and their agendas to respond to these.

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