

CIPFA Better Governance Forum

Audit Committee Update

-helping audit committees to be effective

Issue 13

- **Reviewing the Audit Plan**
- **Update on the Local Audit and Accountability Act**
- **Briefing on Topical Governance Issues**

March 2014

Introduction

Dear Audit Committee Member,

Welcome to Issue 13 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 includes an article on reviewing the audit plan. This was a topic addressed in our very first issue but with the implementation of the Public Sector Internal Audit Standards (PSIAS) in April 2013 we felt it would be timely to revisit the topic.

We have also included an update on the Local Audit and Accountability Act which has just received Royal Assent. It is likely that further consultation on regulations will be issued in 2014 and audit committees will want to monitor the likely impact on their authority.

I hope you will find this issue helpful. If you have missed earlier issues they are available directly from our website. See the full list overleaf.

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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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 2014

Developing your 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.

[11 June Edinburgh](#), [9 July York](#), [10 July Birmingham](#), [4 December London](#)

Advanced Audit Committees

This workshop examines the audit committee role in strategic risk management, value for money, counter fraud and treasury management.

26 June London, 20 November London

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.

8 May Glasgow, 17 June London, 8 July Glasgow

CIPFA Annual Audit Conference

14 and 15 May, Norton Park Hotel, Winchester

Strategic issues and professional briefings affecting audit in the public services.

Keynote session: The UK: Where to from Here?

Political journalist Bill Jamieson will outline the outlook for the UK economy, implications for the public services and the intensifying battle over independence.

Other major sessions include:

- The National Audit Office's new role in Local Government and Health – Mike Suffield, NAO
- Understanding Cyber Risks – Alan Calder, IT Governance
- Internal Audit's Role in Improving the Public Sector's Procurement and Management of Contracts – Jay Hussain, Moore Stephens
- The Future of Public Sector External Audit - Steve Warren, Jersey Audit Office

Early booking offers are available until 4 April. Better Governance Forum prepaid places can be used.

[View the website for the full programme and booking details](#)

In-house training

In house training for any of the events shown above or tailored to your needs is available. For further details contact chris.o'neill@cipfa.org

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Reviewing the Internal Audit Plan

Introduction

The review of the internal audit plan is a key task for the audit committee. For the audit committee the plan provides the opportunity to review the content of the plan, the risks and priorities that the head of internal audit has identified and also the resourcing. Under the Public Sector Internal Audit Standards (PSIAS)¹ approval of the risk based internal audit plan by the committee is one of the functional reporting requirements that help to safeguard the independence of internal audit.

The aim of this article is to support audit committee members to provide an effective review of the audit plan and also to consider the professional standards requirements of the PSIAS in relation to the plan.

Purpose of the Plan

The internal audit plan has a number of purposes:

- It represents the head of internal audit's view of the risks facing the organisation.
- It provides an opportunity for the head of internal audit to discuss and agree priorities for assurance with senior managers and the audit committee.
- The audits included will provide the basis for the annual internal audit opinion.
- It provides the opportunity for a review of the internal audit resources that are necessary to deliver the plan and annual opinion.
- It provides a work plan for the internal audit team.
- It is a prompt for considering how other sources of assurance can be used by internal audit.

The plan is clearly very important to the internal audit team but it is also at the heart of much of what the audit committee will be doing over the coming year. The audits contained in the plan will feature as risk and assurance issues on the audit committee agenda. The annual opinion is a key source of evidence for the annual governance statement. Oversight of the performance of internal audit and conformance with the professional standards are also key parts of the audit committee's terms of reference.

Professional Standards Requirements

The PSIAS set out a number of requirements for planning and there are also a number of public sector requirements. In summary these are:

- The head of internal audit must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. (PSIAS 2010)
- The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. (PSIAS 2010 public sector requirement)
- The plan must incorporate or be linked to a high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities. (PSIAS 2010 public sector requirement)
- The risk-based plan must explain how internal audit's resource requirements have been assessed. (PSIAS 2030 public sector requirement)
- The plan must be based on a documented risk assessment, undertaken at least annually and include input of senior management and the board. (PSIAS 2010.A1)

¹ [Public Sector Internal Audit Standards, 2013](#)

The Content of the Plan

As a risk-based plan, aligned to the organisation's own objectives and priorities, each one will be different, even for similar organisations. It is likely however that there will be some areas common to many plans. The PSIAS do identify some key areas for assurance so it is likely that these will be identified in the plan. These areas include:

- governance and ethics
- organisational performance management and accountability
- information technology governance
- the effectiveness of risk management
- risk exposures and controls affecting the following:
 - achievement of strategic goals
 - the integrity of financial data
 - effectiveness and efficiency
 - safeguarding of assets and
 - compliance with laws and regulations
- the potential for the occurrence of fraud and how the organisation manages fraud risk.

The head of internal audit will have discussed risks and priorities with the senior managers to make sure that the final plan is risk based and adding most value to the organisation. It is also likely that there will have been discussion with the external auditor so that account may be taken of the external auditor's scope to place reliance on the work of internal audit. This will be of particular relevance for financial control systems that underpin the financial statements but it may also include other areas of risk that are of concern to the external auditor.

What Makes a Good Plan?

In addition to a plan that meets the professional standards, a good plan should achieve a balance between clearly setting out the planned audit work and retaining flexibility to respond to changing risks and priorities during the year.

Traditionally heads of internal audit have produced quite detailed plans identifying all the individual audits planned for the year. This does have the advantage of providing a clear route map to the end of year opinion. However, as the year progresses it is likely that risks and organisational priorities will change, resulting in changes to the plan. This is a particular problem for heads of internal audit in many organisations at the moment because of the pace of change and a high level of uncertainty affecting the risk environment. As a result some heads of internal audit are keeping their audit plans more open, the plan reflecting themes and types of work rather than individual audits. Detailed plans are then produced on a quarterly basis. This can result in more realistic and flexible plans.

A good plan should also include a good balance between operational controls and strategic risks. The audit committee needs to look at what assurance internal audit is able to offer in relation to your organisation's major projects, programmes, new initiatives, partnerships and strategies. In 2010 CIPFA issued its *Statement on the Role of the Head of Internal Audit*² which set out the core roles of the head of internal audit. The first of these included: *objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments*. The plan provides an excellent opportunity for the head of internal audit to consider emerging risks and provide assurance on new developments.

² CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations, CIPFA 2010

The Question of Audit Resources

In most public sector organisations the resourcing of internal audit is under pressure.³ As organisations seek to reduce costs many audit teams, whether in-house, bought in or delivered through a shared service, have had to reduce their budgets. Heads of internal audit have a professional responsibility to advise the board if the level of agreed resources will impact adversely on the provision of the annual internal audit opinion⁴ When reviewing the audit plan the audit committee should bear in mind whether the audit plan will be adequate to support the annual opinion and that the level of resource is adequate to deliver the plan. Resources include the knowledge, skills and experience of the audit team as well as the head count. Pressures may be experienced in areas where extended knowledge or experience is necessary, for example audits of information systems or procurement and contracts. The impact may be that there is reduced coverage of the control environment: either the depth of coverage is reduced or that lesser risks go unaudited.

Monitoring the Audit Plan

Once the plan is approved the audit committee will be kept up to date with the audits completed and key issues and recommendations arising. These regular updates are helpful to the committee, keeping them up to date with the robustness of controls, any new concerns and action that is being taken by management. The head of internal audit will also report on changes to the audit plan or any issues interfering with its delivery.

How the Audit Committee can Add Value:

1. Understand what the professional standards require your internal auditors to do and support the work they do to meet those standards.
2. Have an understanding of what assurances your committee needs to fulfil its terms of reference and support the annual governance statement. This will help you identify the assurance that will come from internal audit and what other assurances may be provided.
3. Be clear on what the role of the audit committee is in relation to the plan. You may have delegated authority to approve the plan or you may be reviewing the plan for comment and recommendation.
4. Respect the head of audit's professional judgement and recommendations. Do ask questions about what has been included or excluded and why, but don't try to re-write the plan at the meeting. It is probably best for the audit committee to feed in suggestions for the plan at an earlier stage.
5. Encourage an open discussion on audit resources, respecting both the professional obligations on the head of internal audit and the organisation's wider financial plans.

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³ 59% of heads of audit expected further reductions in their audit team size in CIPFA and Grant Thornton's survey in 2012, [The Developing Internal Audit Agenda](#).

⁴ Public sector requirement, PSIAS 2030,2013

Local Audit and Accountability Act

Introduction

The Local Audit and Accountability Act received Royal Assent on 30 January 2014. The Act concerns the abolition of the Audit Commission and arrangements for establishing a new regime of local audit for local authorities, police bodies, NHS trusts and clinical commissioning groups in England. The Act also includes provisions relating to council tax referendum and the code of practice on local authority publicity. This article will outline the key points that will be of interest to audit committee members:

- Overview of the local audit arrangements.
- Role of auditor panels.
- Impact on the role of the audit committee.
- Future developments.

Overview of the New Local Audit Arrangements

The Audit Commission will be closed on 31 March 2015. The monitoring of existing audit contracts that are set to run until 2017 (but may be extended until 2020) will be passed to a transitional body from 1 April 2015.

From 2017 (unless existing audit contracts are extended) organisations will be able to appoint their own external audit provider. There are provisions in the Act about who can be an external audit provider and the regulation of audit providers. Further regulations will be issued on these. These will not be the direct concern of the audit committee so I will not go into further detail here.

All local audit providers will have to work to the Code of Audit Practice which will now be written by the National Audit Office (NAO). The code will set out the scope of the audit and the work and reports that the audit providers will need to provide. The NAO is currently working with the Audit Commission on a plan for taking on the Code of Audit Practice. The current code was approved in March 2010.

The procurement process provides options for different approaches to procurement: individual organisation procurement and joint procurement (for example a regional group of authorities). In addition the Act gives powers to the secretary of state to make regulations concerning collective sector-led procurement. This is one of the late changes to the Act. Smaller authorities (typically town and parish Councils) are likely to use a collective procurement option as it would not be cost effective to operate separate procurements. It is also possible that an offer of a collective procurement service will be offered by the Local Government Association (LGA), or similar, which other authorities can choose to buy into.

Role of Auditor Panels

Unless a local authority is using a collective procurement service, it will be required to establish an auditor panel. The role of the panel is to safeguard independence in the appointment of the external auditor. Health and police bodies will use their existing audit committees to fulfil this role as the committees have a majority of independent members. The same option is also open to local authorities, so long as the audit committee fulfils the criteria for independence:

- The committee should be chaired independently of local authority councillors or officers.
- It must have a majority of independent members.
- Panel members should meet the requirements of independence, as set out in the Act or other regulations.

The panel can be completely separate from the audit committee or it could include some joint membership. For example it could be a sub-committee of the audit committee which only includes the independent members. It is also possible to set up a joint panel to facilitate a joint procurement exercise. For example, four neighbouring authorities could set up a joint panel, each providing a representative. Again this may or may not involve joint membership of each council's audit committee. Another option would be for the auditor panel of one authority to operate as the panel on behalf of others.

The primary responsibility of the panel (or audit committee if it is acting as the panel) will be to advise the authority on the selection and appointment of a local auditor to audit its accounts. The final choice and power of appointment will not lie with the panel but with the authority, police or health body as appropriate.

Another important role for the panel is to advise the organisation on the maintenance of an independent relationship with their external auditor. Ensuring independence is an important principle in external audit. It is built into the ethics followed by auditors and in the private sector it is monitored and reported on by the audit committee. Usually this role includes policies on non-audit or consultancy work being awarded to the external auditor.

The panel will also have a role in the event of the resignation or removal of the external auditor and this will be set out in regulations from the secretary of state.

CIPFA is planning to issue guidance on auditor panels later in 2015, assuming a significant lead-in to bodies making their first local appointment by December 2016. Discussions are ongoing with Department for Communities and Local Government (CLG) as to the nature of any proposed guidance.

Impact on the Audit Committee

A key consideration here is whether the audit committee will be taking on the panel role directly or whether it will be working alongside a panel. If the committee is taking on new roles and responsibilities then it will need to amend its terms of reference accordingly and is likely to require additional training and guidance in the role. If the current make-up of the audit committee does not fit the requirements of the panel then changes will need to be made before the committee can operate as a panel. Forthcoming regulations and guidance will be important for informing these developments.

Where the committee is working alongside the panel then consideration needs to be given to how the two will interact. The existing audit committee will retain its current role of liaison with the external auditor, receiving the results and recommendations from the external audit work, overseeing the relationship between external auditor and the finance team and the internal audit service. The audit committee will have a view therefore of how successfully the audit contract is being fulfilled. This should be communicated to the panel. The panel's guidance on maintaining an independent relationship may need to be monitored by the audit committee.

Future Developments

The Act will be supported by regulations issued by CLG. These provide more detail on the operation of the Act in practice. The first set of regulations was issued for consultation in November 2013 and further consultation on regulations is expected during 2014. The NAO will also be consulting on the Code of Practice. Further detail will also follow on the monitoring arrangements of existing contracts.

The full text of the Act is available on the Parliament website:

<http://services.parliament.uk/bills/2013-14/localauditandaccountability/documents.html>

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Recent Developments You May Need to Know About:

Legislation and Regulations

Future of Local Audit

Consultation on Secondary Legislation: Summary of Responses

The government has issued a summary of responses it received on its consultation on draft regulations on the conduct of local audit under the Local Audit and Accountability Act. The consultation included questions about smaller authorities, auditor panels and the removal and resignation of auditors, plus others. In response to the comments received, the government has recognised the contribution that audit committees can make, even where they do not act as the auditor panel:

The Government will consider with the sector the development of guidance on how best to utilise the perspective and expertise of audit committees. However, we believe that it is right to have independent oversight in this area, which the audit committee, as a committee of the authority, cannot provide. The Act already allows an audit committee to act as an auditor panel if it has an independent chair and majority for these purposes. An auditor panel may also draw on an audit committee's advice in carrying out its functions, as of course may the authority.

The government has said that further consultation will be issued in May on other draft regulations.

[Summary of responses to the consultation](#)

Reports, Recommendations and Guidance

Audit Committees, Practical Guidance for Local Authorities and Police

CIPFA's new publication includes its new Position Statement plus extended guidance and resources to support audit committees. The last issue of Audit Committee Update included a summary of the changes and additions from the previous edition.

The new Position Statement is available also as a PDF download from the CIPFA website. This can be shared on public agendas such as audit committee papers.

[CIPFA Publications](#) [New Position Statement](#)

Financial Statements, A Good Practice Guide for Local Authorities

CIPFA has produced a publication to support those producing the financial statements to present them in a way that helps the public understand what is being shown. It is aimed at finance practitioners but may be of interest to audit committee members keen to improve the readability of their accounts.

[CIPFA Publications](#)

Local Government Governance Review 2014

This is Grant Thornton's third annual review of governance in local government. As well as reviewing the effectiveness of annual governance statements and the explanatory foreword this report looks in depth at the issues of risk leadership and governance in partnerships and alternative delivery models.

[Grant Thornton](#)

NHS Governance Review 2014

This third annual review, aims to assist CCG governing bodies and trust boards assess their governance arrangements. It includes coverage of leadership and the governance of commissioning as well financial governance and accountability.

[Grant Thornton](#)

Cyber Risk Management

The Institute of Risk Management (IRM) has produced a guidance document on cyber risks, including risks in the supply chain and from social media. The document also highlights key questions for boards to consider about the organisation's approach to managing the risks. The full document is available to download from the Better Governance Forum website.

[Cyber Risk Management](#)

Protecting the Public Purse and Fraud Briefings

This report presents the results from the Audit Commission's most recent fraud survey among local authorities in England, which indicates that £178m of fraud was detected by local government in the last year. Just over three quarters of that total was detected by one quarter of councils. The report includes analysis of the main types of fraud risk experienced and examines the trends in detection.

The Audit Commission is also making available individual fraud briefings for all councils in England, via the external auditor. The intention is for the briefings to be presented to the audit committee. The report includes details of what will be provided and questions audit committee members can use to review and understand the data.

[Protecting the Public Purse](#)

Police Accountability: Landscape Review

A report from the National Audit Office (NAO) looking at accountability under the new police and crime commissioner arrangements. The NAO finds that gaps in this framework, such as the limited effectiveness of police and crime panels, and HM Inspectorate of Constabulary's lack of authority to carry out routine inspections of commissioners or their offices, could limit the degree of assurance the Home Office can take from the new accountability structure.

[National Audit Office report](#)

Government Whistleblowing Policies

The NAO has examined the procedures in place for whistleblowing within government departments against a set of standard criteria. The report shows the breakdown for each department

[National Audit Office Report](#)

Look Out For

CIPFA Code of Practice on Managing the Risk of Fraud and Corruption

CIPFA will be issuing a new code for consultation in May. The code will set out the core principles of good counter fraud and corruption practice. It builds on the "Red Book" *Managing the Risk of Fraud, Actions to Counter Fraud and Corruption* first published in 2006 and updated 2008.

The code will completely update the Red Book principles and provides an opportunity to raise the importance of having good counter fraud practice in all public sector organisations. With the number of significant changes affecting the delivery of counter fraud, particularly in local government, the publication of common standards is an important step forward. The code can be applied to all organisations operating in the public sector, whatever their size.

The code will be supported by additional, sector-specific guidance and an assessment tool. These will help organisations to evaluate their arrangements and plan improvement. The review of an organisation's arrangements against the code will be of interest to audit committees and will provide evidence to support the annual governance statement.

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