

CIPFA Better Governance Forum

Audit Committee Update

Helping audit committees to be effective

Issue 26

CIPFA's Position Statement on Audit Committees in Local Authorities and Police

Briefing on topical issues

Audit committee training

September 2018

Introduction

Dear audit committee member,

This issue's main article highlights the main changes to CIPFA's Position Statement and guidance publication on audit committees in local authorities and police. These updates reflect the importance that CIPFA places on having effective audit committees, supported by robust frameworks for governance risk management and internal control. If you haven't already seen these then I recommend you read the article and then download the Position Statement. You should also be able to access the detailed guidance directly if your organisation has purchased the publication as it is in a format that can be placed on an intranet for wide access.

We have a number of audit committee training events coming up, so if you would like to receive further support and guidance please do consider attending one of these events. They also provide opportunities to network with other audit committee members.

The remainder of this issue focuses on keeping you up to date with our regular briefing covering recent legislation, reports and guidance.

Overall I hope you will find this issue interesting, informative and helpful in your work on the committee.

Best wishes

Diana Melville, CIPFA Better Governance Forum

Sharing this Document

Audit Committee Update is provided to subscribers of the Better Governance Forum for use within their organisations. Please feel free to circulate it widely to your organisation's audit committee members and colleagues. It can also be placed on an intranet. It should not be shared with audit committee members of organisations that do not subscribe to the Better Governance Forum or disseminated more widely without CIPFA's permission.

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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) then you will also be able to register on our website and download any of our guides and briefings directly. To register now, please visit www.cipfa.org/Register. You can also select your preferences for any newsletters or mailings.

Support for Audit Committees

Links to all CIPFA resources, guidance and training details relating to audit committees can be accessed by a dedicated page on the [CIPFA website](http://www.cipfa.org).

Previous Issues of Audit Committee Update

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

| Principal Content | Link |
|---|--------------------------|
| Issues from 2010 and 2011- the content in these issues has been replaced by more recent issues. | |
| Issues from 2012 | |
| Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation | Issue 7 |
| Commissioning, Procurement and Contracting Risks | Issue 8 |
| Reviewing Assurance over Value for Money | Issue 9 |
| Issues from 2013 | |
| Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements | Issue 10 |
| Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA's Guidance on Audit Committees | Issue 11 |
| Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues | Issue 12 |
| Issues from 2014 | |
| Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues | Issue 13 |
| 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 | Issue 14 |
| CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, the Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments | Issue 15 |
| Issues from 2015 | |
| What Makes a Good Audit Committee Chair? Governance Developments in 2015 | Issue 16 |
| The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments | Issue 17 |
| Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues | Issue 18 |
| Issues from 2016 | |
| Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues | Issue 19 |
| CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues | Issue 20 |
| The Audit Committee and Internal Audit Quality, Briefing on Topical Issues | Issue 21 |

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|--|--------------------------|
| Issues from 2017 | |
| Developing an Effective Annual Governance Statement, Regular Briefing on Current Developments, Audit Committee Training | Issue 22 |
| 2017 edition of the Public Sector Internal Audit Standards, Understanding the Risks and Opportunities from Brexit, Recent Developments and Resources | Issue 23 |
| Issues from 2018 | |
| The Audit Committee Role in Risk Management, Regular Briefing on Current Developments | Issue 24 |
| Developing an Effective Annual Governance Statement | Issue 25 |

Workshops and Training for Audit Committee Members in 2018 from CIPFA

Inaugural CIPFA and CfPS Conference for Councillors

This event will outline current legislative, governance and funding challenges facing councillors and their councils and share insights on how best to address these challenges. This is a joint event with the Centre for Public Scrutiny (CfPS).

- [13 September 2018, House of Commons](#)

Developing the knowledge and skills of the audit committee

This workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role. In addition, it will feature the new governance framework, working effectively with internal audit and other key topics.

- [20 September 2018, London](#)

Development day for police audit committees

These events are suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables. These events are run in conjunction with CIPFA's Police Network.

- [19 September 2018, York](#)
- [20 September 2018, London](#)

Development day for local authority audit committees

These events are suitable for members of local authority audit committees and those supporting the committee. They will provide guidance and updates on topical issues and new developments affecting the work of the committee.

- 7 November 2018, London
- 5 December 2018, Birmingham
- 16 January 2019, York

Other CIPFA events information and dates are available on the [website](#).

In house training and facilitation

In house audit committee training and guidance 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
- improving impact and effectiveness.

For further details contact our [in-house training team](#) or email diana.melville@cipfa.org or visit the [CIPFA website](#) for further details on the support we have available for audit committees.

CIPFA Position Statement on Audit Committees in Local Authorities and Police 2018

CIPFA has published an updated [Position Statement](#) setting out the principles that it recommends for audit committees in the local government sector. The statement covers the role and purpose of the committee, its key areas of focus and the membership of the committee. There is further support for the committee in the CIPFA publication [Audit Committees: Practical Guidance for Local Authorities and Police \(2018 Edition\)](#).

Having an effective audit committee is a key component of a local authority's or police body's governance arrangements. By providing a high-level focus on audit, assurance and financial reporting it helps to secure good standards of governance and financial management.

Key changes to the CIPFA guidance

CIPFA's earlier guidance was published in 2013 and while there is some continuity in the principles there are also some changes. Since then there has been new legislation, regulations and standards that impact on the work of the committee so it is important that the guidance properly reflects those changes. The key changes include:

- emphasis on establishing an effective structure (applicable to local authorities only)
- new guidance on the audit committee role in relation to external audit
- audit committee role in collaborative arrangements
- accountability and annual reports
- new self-assessment of good practice.

Establishing an effective model for the committee

CIPFA is recommending that all local authority audit committees should include an independent (co-opted) member. Some authorities (those in Wales and English combined authorities) are required to include a co-opted member already and some have voluntarily taken this step. CIPFA considers that independent members add value to the committee providing additional knowledge and expertise, continuity of membership and helping to support the independence of the committee. Other factors that support an effective model include:

- a dedicated committee rather than a committee combined with other responsibilities
- direct accountability to those charged with governance
- avoiding a large number of members
- independence from the executive and not including members of the executive on the committee
- regular meetings.

CIPFA has seen good examples of audit committees in local authorities but it has also seen committees which are weak and ineffective. Reviewing the structure of the committee is one way to improve a committee that struggles to make an impact.

The audit committee role in relation to external audit

The new guidance reflects the changes introduced in England for the appointment of external auditors in the Local Audit and Accountability Act 2014. It also reflects the greater expectations of audit committees in relation to ethical standards of auditors. Receiving and reviewing the reports and recommendations from external audit has always been an important role for the committee, but changes to the legislative and regulatory environment have increased the importance of the audit committee role.

Audit committee role in collaborative arrangements

The 2013 guidance highlighted the importance of the audit committee having oversight of the significant partnerships that the authority participated in. The importance of this has grown with increasing numbers of collaborative arrangements. In the police sector the statutory duty to consider collaboration is leading to collaborations with fire authorities or with other police bodies.

The guidance recommends that the committee should seek assurances over the establishment of new arrangements and help to ensure that satisfactory governance, risk, audit and accountability arrangements are put in place. The audit committee should be satisfied that the annual governance statement reflects the governance in partnerships and collaborative arrangements.

Accountability and annual reports

Audit committees provide a valuable mechanism of internal accountability, helping to ensure that those responsible for exercising effective governance, the management of risk and adequate internal controls are discharging these effectively. Whether the committee follows up an internal audit report, recommendations from external audit or reviews risk registers, it is holding to account.

CIPFA recommends that all audit committees should report regularly on their work and an annual public report should demonstrate the committee's effectiveness.

New self-assessment of good practice

The guidance also includes an updated self-assessment, incorporating the key aspects of the Position Statement and guidance. The self-assessment is short, only 25 questions, but challenging. Completing the self-assessment will help the committee to challenge itself and consider whether it is tackling the right issues and operating in an effective way.

Next steps

The Position Statement can be downloaded from the [CIPFA website](#). The supporting guidance, including the self-assessment, is a publication, which once purchased, can be placed on an organisation's intranet so that all with an interest can access it. I would encourage all authority and police audit committee members to review the Position Statement and guidance and evaluate their own committee against the principles. The following questions may help to open up discussions.

| Key questions to ask | |
|----------------------|---|
| 1 | How does the structure and reporting arrangements of our audit committee compare to the CIPFA recommendations? |
| 2 | Is the membership of the committee objective, knowledgeable and properly trained to fulfil their role? |
| 3 | Do the terms of reference of the committee reflect all the core functions of the committee as set out in the Position Statement and guidance? |
| 4 | Has a self-assessment of the committee been completed recently? |
| 5 | Has the committee published an annual report setting out how it has discharged its responsibilities? |

Further material to inform committee members is available to download from the [CIPFA website in our dedicated section](#). Full access to the issues of *Audit Committee Update* is only available to organisations subscribing to the [CIPFA Better Governance Forum](#).

Diana Melville

Governance Advisor, CIPFA

Recent Developments You May Need to Know About

Legislation, regulations and consultations

Financial management code of practice

The Home Office has published new statutory guidance for police bodies. The code sets out responsibilities for governance and financial management, including the role of the joint audit committee. The latest version addresses some of the changes required to support combined authorities and collaborations between police and fire, including audit committee arrangements. [Financial Management Code of Practice](#)

The Responsible Finance Officer in Local Enterprise Partnerships (LEPs)

Working with the Cities and Local Growth Unit of the Ministry of Housing, Communities and Local Government (MHCLG), CIPFA has developed principles to help support the Section 151 officer of the accountable body of each of the local enterprise partnerships (LEPs). The need for the principles was identified by the report by Mary Ney into the governance of LEPs in 2017. The principles cover the role of the Section 151 officer and also highlight the value of appropriate audit and audit committee arrangements. [Principles for section 151 officers working with LEPs](#)

Northamptonshire County Council best value inspection

The inspection report was published into the failure of Northamptonshire to comply with its duty to provide best value in the delivery of its services. The report examines the causes of this failure and the circumstances that led to the issue of the Section 114 notice in February 2018. [Best value inspection report](#)

Consultation on CIPFA index of resilience for English councils

CIPFA has recently consulted on the development of an index of resilience for English Councils. The proposal is in response to concerns around financial sustainability raised by the sector and the recent National Audit Office report. Using publicly available information the index would provide an assessment of the relative financial health of each English council. CIPFA is currently considering the responses received. [CIPFA Consultation](#)

Reports, recommendations and guidance

Briefings

Essential Governance, Risk Management and Control

A briefing from CIPFA highlighting the importance of ensuring that internal controls operate effectively and acknowledging the challenges of ensuring this when resources are under pressure. Service transformation and outsourcing also present challenges and audit committee members should have a good understanding of the risks to good governance and internal control. [Essential Governance, Risk Management and Control](#)

Reports

Monitoring the quality of external audit

Public Sector Audit Appointments (PSAA) publish quarterly compliance monitoring reports on the external audit contracts they oversee. The annual report summarises these results together with audit quality review findings. Audit committee members should be aware of any audit quality or compliance issues relating to their appointed external audit firm. [2018 Annual Regulatory Compliance and Quality Report](#)

Each year Audit Scotland publishes a report on the quality of its audit work including the findings of the independent assurance reviews carried out by The Institute of Chartered Accountants in Scotland (ICAS). [Audit Scotland Audit Quality Annual Report 2017/18](#)

National Fraud Initiative

The National Fraud Initiative is a mandatory data matching exercise operating across local government. In England the Cabinet Office leads the exercise and each of the devolved governments run their own exercise, led by the appropriate audit institution. The following reports show the results from the latest exercises:

[The National Fraud Initiative in England](#)

[The National Fraud Initiative in Scotland](#)

Governance of arms-length organisations

A report from Audit Scotland on councils' use of arm's-length organisations for the delivery of services. The report considers the effectiveness of the arrangements and the adequacy of governance arrangements. The report includes a useful checklist and is of relevance for all local authorities that have or are developing alternative service delivery arrangements. [Councils' Use of Arm's-length Organisations](#)

2016/17 audit of Dundee City Council: report on a significant fraud

A report by Audit Scotland examining the control failures that allowed a fraud totalling £1m to take place at Dundee City Council. The report highlights the importance of effective controls and lessons for other councils to consider. [Audit of Dundee City Council](#)

Ethical standards for public service providers

The Committee on Standards in Public Life has published a progress report to their 2014 report on ethical standards for public service providers. The 2018 report highlights that progress in implementing the earlier recommendations has been disappointing and the Committee remains of the view that more must be done to encourage strong and robust cultures of ethical behaviour in those delivering public services. [The Continuing Importance of Ethical Standards for Public Service Providers](#)

Financial resilience and sustainability

These challenges are significant for many public bodies. Reports from the state audit institutions provide insights into the experiences of specific sectors.

- National Audit Office (NAO) report – [Financial Sustainability of Local Authorities 2018](#)
- Public Accounts Committee report – [Financial Sustainability of Local Authorities](#)
- Accounts Commission report – [Local Government in Scotland: Challenges and Performance 2018](#)

The audit committee and transformation

The NAO issued guidance for audit committees on their oversight role of transformation programmes. It includes questions committees should ask during set-up, delivery and live-running phases. [Transformation Guidance for Audit Committees](#)

Forthcoming reports to look out for

The NAO will be publishing a report on the financial sustainability of police in the autumn of 2018.

Late 2018 or early 2019, the NAO will publish a report on governance and accountability in local authorities.

The Committee on Standards in Public Life is currently undertaking a review of standards in local government. The report is expected in the autumn of 2018.

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