

**CIPFA Better Governance Forum**

## **Audit Committee Update**

**Helping Audit Committees to Be Effective**

**Issue 27**

**Focus on Local Audit  
National Audit Office Report: Local Authority Governance  
Regular Briefing on New Developments**

**February 2019**

## Introduction

Dear audit committee member,

In the latest issue of Audit Committee Update, we highlight recent reports from external auditors, in particular the National Audit Office report on Local Authority Governance. We also take stock of local audit arrangements in the light of recent developments. Understanding the work of external auditors is a key responsibility of the audit committee, and supporting and overseeing the organisation's response to the auditor recommendations is an essential role for the committee.

The remainder of this issue focuses on keeping you up to date with our regular briefing covering recent 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

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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. To register now, please visit [www.cipfa.org/Register](http://www.cipfa.org/Register).

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## 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Issues from 2010 and 2011- the content in these issues has been replaced by more recent issues.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	<a href="#">Issue 7</a>
Commissioning, Procurement and Contracting Risks	<a href="#">Issue 8</a>
Reviewing Assurance over Value for Money	<a href="#">Issue 9</a>
Issues from 2013	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	<a href="#">Issue 10</a>
Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA's Guidance on Audit Committees	<a href="#">Issue 11</a>
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	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	<a href="#">Issue 13</a>
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>
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>
Issues from 2015	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	<a href="#">Issue 16</a>
The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	<a href="#">Issue 17</a>
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	<a href="#">Issue 18</a>
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	<a href="#">Issue 19</a>
CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	<a href="#">Issue 20</a>
The Audit Committee and Internal Audit Quality, Briefing on Topical Issues	<a href="#">Issue 21</a>

<a href="#">Issues from 2017</a>	
Developing an Effective Annual Governance Statement, Regular Briefing on Current Developments, Audit Committee Training	<a href="#">Issue 22</a>
2017 edition of the Public Sector Internal Audit Standards, Understanding the Risks and Opportunities from Brexit, Recent Developments and Resources	<a href="#">Issue 23</a>
<a href="#">Issues from 2018</a>	
The Audit Committee Role in Risk Management, Regular Briefing on Current Developments	<a href="#">Issue 24</a>
Developing an Effective Annual Governance Statement	<a href="#">Issue 25</a>
CIPFA Position Statement on Audit Committees in Local Authorities and Police 2018	<a href="#">Issue 26</a>

## Workshops and training for audit committee members in 2019 from CIPFA

### **Introduction to the knowledge and skills of the audit committee**

This training course will provide more in-depth knowledge of the core areas of an audit committee's functions, including risk management, assurance planning and improving the effectiveness of the committee.

- 19 September Leeds
- 16 October London
- 17 October Birmingham

### **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.

- 1 May York
- 2 May London

### **Development day for local government audit committees**

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, internal audit developments and other key topics.

- 13 November London
- 5 December Birmingham

Other dates in late 2019 or early 2020 will be announced later in the year.

The above events can all be accessed using prepaid places for the CIPFA Better Governance Forum. CIPFA events information and dates will be available on the [website](#) in due course.

### **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](mailto:diana.melville@cipfa.org) or visit the [CIPFA website](#) for further details on the support we have available for audit committees.

## New development from 2019: support for councillors in local authorities

CIPFA is working with the Centre for Public Scrutiny to provide events and resources to support councillors in their roles. Events will be half-day sessions at a range of locations. Topics include financial reporting, governance and procurement.

Further details will be available soon.

## Focus on local audit

### Local audit in England

The [Local Audit and Accountability Act 2014](#) (the Act) made significant changes to the delivery of local audit in England. The Act abolished the Audit Commission and created a new regime to support local audit appointment by local authorities and NHS Trusts. Regulatory arrangements to oversee the work of auditors were passed to the National Audit Office (NAO), the Financial Reporting Council (FRC) and accountancy member bodies ICAEW and ICAS. Counter fraud arrangements, principally the National Fraud Initiative, were passed to the Cabinet Office. A new body Public Sector Audit Appointments (PSAA) was charged with overseeing transitional contracts let by the Audit Commission and in 2016 was appointed as a sector-led body to offer a procurement service to principal local authorities. The Smaller Authorities Audit Appointments (SAAA) was established to lead a procurement and appointment for smaller authorities in 2016. NHS trusts and Clinical Commissioning Groups had to lead their own appointments but were offered the option of using a framework agreement.

The complexity of the transition meant that only now are the new arrangements fully coming into effect. So how are the arrangements working out? In local government, 97% of principal local authorities chose to opt into the PSAA-led procurement, indicating that there was little appetite for individual appointments. As a result, independence in appointment has largely been protected. While the savings in fees have been welcomed by the sector, reservations have been expressed about the output of audit. In the recent report from the National Audit Office, [Local Authority Governance](#), it was reported that heads of paid service, section 151 officers and internal auditors raised concerns that the contribution of external audit to local governance had been reduced. A quarter of section 151 officers of single-tier and county councils felt that their audit fee was too low relative to the risk of their authority. The Code of Audit Practice, set by the NAO, is the basis for the local audit work performed in accordance with the Act and standards of auditing. During 2019, the NAO will be consulting on principles for a new Code which must be approved by Parliament before April 2020. It is likely that such issues will be considered during the consultation.

In a separate development, the Department for Business, Energy and Industrial Strategy (BEIS) commissioned the Kingman report to examine the role of the Financial Reporting Council as the regulator for auditing across all sectors of the UK. The report, [Independent review of the Financial Reporting Council](#), was published in December 2018 and included a section on the FRC's role in local audit. The report raised concerns that the FRC's powers were weaker in relation to local audit in comparison to its other roles and also took into account broader concerns about the regulation of the audit sector in terms of ensuring audit quality and auditor independence. Accordingly, the Kingman report concluded:

*The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. The structure means also that no one body is looking for systemic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks.*

The review recommended that the arrangements for local audit needed to be fundamentally rethought. A further report has now been commissioned by BEIS to review the quality and effectiveness of the UK audit market.

### Local audit in practice (England)

The NAO has also recently published a report on [Local Auditor Reporting](#), covering both local government and health sectors. Each year the local auditor must conclude whether local public bodies have arrangements to manage properly their business and finances and must report if they do not. The NAO report raises a number of concerns about the rise in the number of

qualified conclusions on value for money arrangements across both sectors. At the same time, it expresses concerns about the effectiveness of an organisation’s response to a qualified audit report. The NAO report is currently the subject of a hearing of the Public Accounts Committee, so there will be a further report and recommendations in due course.

Some of the key findings from the NAO report are summarised in the following table.

**Figure 1: Types of local authority, police and fire bodies receiving qualified conclusions on their value for money arrangements in 2017/18**

Type of body	Except for	Adverse	Total qualifications	Percentage of bodies qualified
Single-tier and county councils	23	4	27	18%
District councils	9	0	9	4%
Police, fire and other bodies	3	1	4	3%

It should also be noted that at the time of publication in January 2019, there were a further 20 value for money conclusions yet to be issued, so the final number of qualifications could be higher.

**Figure 2: Reasons provided by local auditors for qualified value for money arrangements conclusions in local government bodies 2017/18**

Service performance (inspectorate/regulator)	Governance arrangements	Partnership working	Finance (performance)	Finance (sustainability)
20	21	7	2	6

*Note: conclusions can be qualified for more than one reason, so the total number of qualification issues exceeds the total number of qualifications.*

The reasons for significant weaknesses in governance arrangements include bodies relying on interim staff to fill senior management posts for too long, poor management of major contracts, or lack of adequate member scrutiny of the executive’s decisions.

The NAO describes the results as “disappointingly high” and comments that it “is clear that bodies need to be doing more to address the weaknesses being reported.” Those bodies that have not received a qualified conclusion should still consider the robustness of their value for money arrangements to ensure that they remain at least adequate. The NAO’s recommendation to the sector is particularly pertinent to audit committees:

*Local public bodies should take prompt and effective action in response to weaknesses in arrangements to secure value for money. This includes effective scrutiny and challenge by those charged with governance to hold the executive to account.*

## Local audit in Wales

The Wales Audit Office has issued two reports focusing on financial management and governance and internal audit in local councils in Wales. [Internal Audit Arrangements at Town and Community Councils in Wales](#) concluded that urgent improvements were needed to internal audit arrangements. Failings included one in five councils where the internal auditor

was insufficiently independent, one in ten did not have internal audit in place and two-thirds had inadequate terms of reference.

In [Financial Management and Governance – Town and Community Councils 2017/18](#), the WAO found that a significant number of councils had failed to comply with their statutory responsibilities for preparing accounts and ensuring that proper arrangements are made for the statutory audit. The number of qualified audit opinions doubled in 2017/18 to 340 councils, with auditors highlighting ongoing failings in financial management and governance.

### **Local audit in Scotland**

Audit Scotland does not publish a summary report on the results of the audits of the accounts of Scottish local authorities and the rolling programme of best value reports. Its report [Local Government in Scotland Financial Overview 2017/18](#) includes analysis of the financial position of local authorities and trends affecting the sector.

Audit committee members should engage with the reports from Audit Scotland on best value for their authority and ensure that any recommendations are addressed positively.

### **Key steps for audit committee members**

The external auditor is a vital contact for the audit committee and the external audit reports provide valuable insight and assurance on financial management and governance. All audit committee members should seek to have a good understanding of the role and responsibility of the external auditor. In particular, they should take seriously the audit opinion and any recommendations. They should review the action plan that is put forward to address the issues raised and then actively monitor its implementation.

Diana Melville  
Governance Advisor

## Local authority governance

In January 2019, the National Audit Office published a report examining the oversight arrangements of the Ministry of Housing Communities and Local Government (the Department) of governance in local authorities and the robustness of the local arrangements themselves. The report, [Local Authority Governance](#), was undertaken following concerns about financial sustainability of the sector and an issue of a section 114 notice at Northamptonshire County Council and a subsequent inspection of the authority.

The report examined local arrangements, particularly those that support financial sustainability. These included:

- operation and independence of the audit committee
- priority given to ethical standards
- effective internal audit
- robust risk management arrangements
- effective scrutiny and challenge
- the right conditions for statutory officers to fulfil their roles.

The NAO surveyed the external auditors of the authorities on the extent to which they were satisfied that these arrangements were effective. In 50% of authorities, the external auditors had no concerns and 19% had concerns on one area only. However, 30% of authorities were scored as having two or more concerns, including 9% with four or more areas of concern. The findings from the survey of external auditors was further supported by a survey of section 151 officers and a range of focus groups and interviews with stakeholders.

While an authority with multiple concerns flagged was more likely to have a qualified conclusion on value for money arrangements, many did not. As a result, the NAO is keen to point out that “an unqualified conclusion does not mean that governance does not need to improve.”

The context for the study is the increased risk profile of many authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. The report concludes that poor governance can make the difference between coping and not coping with financial and service pressures.

Of particular interest to audit committee members will be the findings relating to the effectiveness of audit committees. The NAO asked both external auditors and section 151 officers a number of questions about the operation and effectiveness of the committee. The table below shows results for four key areas.

### External auditors’ views on the characteristics of audit committees

	Strongly disagree %	Disagree %	Neither agree nor disagree %	Agree %	Strongly agree %	Don't know %
Membership that are properly trained to fulfil their role	3	18	23	43	5	9
The audit committee provides sufficient independent assurance to the council on the robustness of the authority’s overall governance arrangements	1	7	19	61	10	2

	Strongly disagree %	Disagree %	Neither agree nor disagree %	Agree %	Strongly agree %	Don't know %
Willingness to make recommendations for the improvement of risk, governance and control	1	6	19	57	15	2
Audit committee recommendations are acted on by the council	0	4	15	66	8	7

Across a range of questions there appears to be concern with a significant minority of audit committees. Only 71% of authorities' committees were judged to be providing sufficient assurance. CIPFA's own survey of audit committees in 2016 also identified the need for better training of audit committee members. The results of our survey can be viewed on the [CIPFA website](#).

The report makes recommendations to the Department to work with local authorities and other stakeholders to assess the implications of and possible responses to the issues identified, including:

- the status of section 151 officers and the efficacy of their statutory reporting arrangements
- the effectiveness of audit committees and how to increase the use of independent members
- the effectiveness of overview and scrutiny functions and ways to enhance their impact and
- the sustainability and future role of internal audit.

The NAO report will be followed by a hearing of the Public Accounts Committee in due course and a further report. Members of the study team will be speaking at CIPFA's governance events in February and March and will share further details of their findings.

Diana Melville  
Governance Advisor

## Recent developments you may need to know about

### Reports, recommendations and guidance

#### Local Government Ethical Standards

The Committee on Standards in Public Life has published a report on their review of standards arrangements in English local authorities. The report, [Local Government Ethical Standards](#), acknowledges that the vast majority of councillors and officers maintain high standards of conduct but that there is clear evidence of misconduct by some councillors, particularly around bullying and harassment.

While the report concludes that local responsibility for standards should be maintained, it recommends a number of improvements, including:

- a new model code of conduct
- extending regulations about the disclosure of interests
- strengthening and clarifying the role of the independent person
- a new sanction to suspend a councillor for up to six months
- disciplinary protection for the statutory officers in authorities (monitoring officer, section 151 officer and head of paid service) should be extended to all disciplinary action
- amendments to the Transparency Code to cover disclosures of code of conduct complaints and changes to whistleblowing.

In addition, there are 15 best practice recommendations made to local authorities.

Audit committee members should take account of the report as an individual councillor or independent member, but they should also be aware of the report when considering the strength of their authority's ethical framework for the Annual Governance Statement.

#### Streamlining the Accounts: Guidance for Local Authorities

CIPFA has worked with the Society of London Treasurers, the Society of District Council Treasurers, and Grant Thornton LLP to offer guidance to local authorities. CIPFA has made available a [pre-publication draft](#) to support practitioners.

Members of audit committees may find the section on how to improve presentation and layout of the financial statements to make them more user-friendly of particular interest.

#### Measured Resilience in English Authorities – CIPFA

In July 2018, CIPFA consulted on a proposal to publish an index of resilience of English councils to support the sector. An updated version was released to finance directors in December 2018 to enable them to view their position relative to others on a range of measures linked to financial risk.

CIPFA has also issued a [briefing note](#) that summarises key results. The measures include analysis of reserves and the flexibility of the council's budget: the proportion of net revenue expenditure accounted for by social care and interest payments. The analysis will be of interest to audit committees considering their council's resilience risks.

## **Auditors' analysis of financial sustainability**

The National Audit Office has published a number of interactive charts based on their analysis for their report *Financial Sustainability of Local Authorities*. [Financial sustainability of local authorities, 2018 visualisation](#).

Audit Scotland has also published interactive charts to accompany their financial overview report on local government. [Local government in Scotland, financial visualisation](#).

## **National Local Growth Assurance Framework 2019**

The Ministry of Housing, Communities & Local Government has published a new assurance framework for Mayoral Combined Authorities with a Single Pot funding arrangement and Local Enterprise Partnerships (LEPs).

As part of the framework, LEPs are required to establish appropriate audit committee arrangements which fit their governance model. For example, an LEP that is part of a Mayoral Combined Authority would use the audit committee of the combined authority. Other models could lead to the establishment of a separate audit committee or use of the audit committee of the accountable body. [National local growth assurance framework](#).

## **CIPFA Fraud and Corruption Tracker 2018**

The CIPFA Fraud and Corruption Tracker (CFaCT) is an annual survey of the fraud and corruption detected in local authorities across the UK. It examines levels of fraud and corruption detected each financial year, types of fraud and emerging trends. CIPFA estimates that over £301m worth of fraud has been detected or prevented within the public sector in 2017/18. [CIPFA Counter Fraud Centre](#).

## **National Fraud Initiative**

Reports from the latest data matching investigations in the UK are now available. The reports show the fraud detected by the analysis of local government and other public sector data sets.

- [England report](#)
- [Northern Ireland report](#)
- [Scotland report](#)
- [Wales report](#)

## **Cross-government Fraud Landscape Annual Report 2018**

This [report](#) from the Cabinet Office focuses on the public sector fraud landscape in central government and the levels of fraud and error loss outside of the tax and welfare system. The levels of detected fraud and frauds prevented have both increased, and progress has been made to improve counter fraud capability in central government departments.

## **Principles of good administrative practice**

Updated [guidance](#) issued by the Local Government and Social Care Ombudsman sets out six principles that should shape the delivery and administration of public services; this is a useful reference when considering the effectiveness of internal control arrangements.

## **Cyber security board toolkit: five questions for your board's agenda**

This is a range of questions that the National Cyber Security Centre believes will help generate constructive cyber security discussions between board members and their Chief Information Security Officers.

The [briefing](#) also explains good practice and how the measures improve security.

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