

CIPFA Better Governance Forum

Audit Committee Update

Helping Audit Committees to Be Effective

Issue 29

CIPFA Statement on the Role of the Head of Internal Audit

External Audit Arrangements for English Local Government Bodies

Regular Briefing on Current Issues

August 2019

Introduction

Dear audit committee member,

This is the 29th issue of Audit Committee Update. Our main focus in this issue is the new CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations. The Statement was published in April and helps audit committee members to understand what they should expect from the head of internal audit. It also sets out the overview and support that the audit committee should provide to that role. It is therefore a key document in understanding the role that internal audit should be playing within the organisation.

The remainder of this issue focuses on keeping you up to date with new developments. There are some important developments that will impact on the work of audit committees, particularly in relation to local audit in England. Our briefing highlights the key reports and work in progress, and we will keep you updated in future issues.

Overall, I hope that you 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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This briefing will be sent to contacts 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. To receive mailings from the Better Governance Forum you will need to opt-in. See My Preferences under 'My CIPFA' on the website one you have logged in.

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Issues from 2010 and 2011- the content in these issues has been replaced by more recent issues.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
Issues 14 and 15 - the content in these issues has been replaced by more recent issues.	
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
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, 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
CIPFA Position Statement on Audit Committees in Local Authorities and Police 2018	Issue 26
Issues from 2019	
Focus on Local Audit National Audit Office Report: Local Authority Governance	Issue 27
The Audit Committee Role in Counter Fraud	Issue 28

Workshops and Training for Audit Committee Members in 2019/20 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.

- [18 September, London](#)
- [19 September, Leeds](#)
- [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.

- 21 November, York
- 28 November, 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 guidance relevant to the audit committee role. In addition, it will feature key topics for the audit committee agenda.

- 13 November, London
- 4 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.

CIPFA events information and dates are available on the website: www.cipfa.org/Events.

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

CIPFA Statement on the Role of the Head of Internal Audit – what does the audit committee need to know?

The [CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations](#) was published in April 2019. It is aimed at audit committees and leadership teams, helping them to understand the role of the head of internal audit and the organisational arrangements that should be in place to provide effective support to the role.

The audit committee plays a key role in relation to internal audit, providing oversight of the arrangements for the service and holding it to account for its delivery of the audit plan. It also plays a vital role in providing high-level support and helping to ensure that its reports and recommendations are considered and addressed by managers. A talented head of internal audit can do a very good job in organising his or her team and ensuring professional internal audit standards are met, but unless there is the right level of engagement with the audit committee and leadership team the impact and effectiveness of internal audit is likely to be undermined. Therefore, it is important that the audit committee understands its role and plays it effectively.

Structure of the Statement

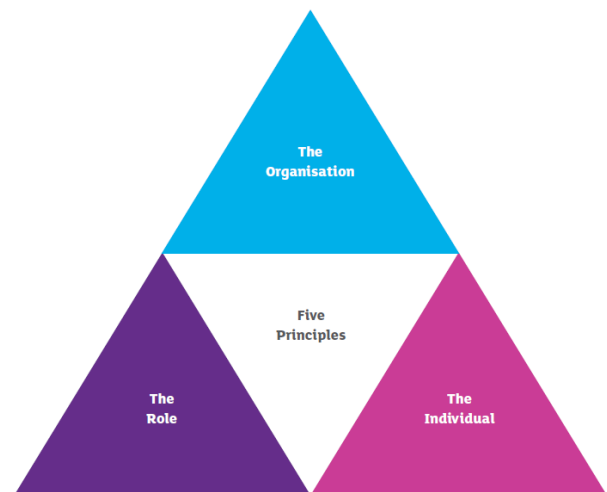
The Statement has five principles that should be applicable to any public sector organisation. For each principle the organisational arrangements are identified along with the characteristics of the role and of the individual. The principles are aligned to the professional standards for internal audit: the Public Sector Internal Audit Standards (PSIAS).

The head of internal audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

1. objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control
2. championing best practice in governance and commenting on responses to emerging risks and proposed developments.

To perform this role the head of internal audit must:

3. be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and the audit committee
4. lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively
5. be professionally qualified and suitably experienced.



Key steps for the audit committee member

CIPFA recommends that audit committee members should read the Statement, as it helps them to understand more about the role and responsibilities of the head of internal audit. Of particular interest to the audit committee member will be the following areas:

- Clear designation of who holds the position of head of internal audit (Principle 3). Sometimes in contracted or shared services this individual may not be a direct employee of the organisation, so it is important to be clear where responsibility lies.
- How the head of internal audit reports to the audit committee (Principle 1).
- Which member of the leadership team has responsibility for internal audit (Principle 1).
- Whether the internal audit charter and plan have been approved by the audit committee (Principle 1).
- Whether the head of internal audit has direct access to the audit committee and members of the leadership team (Principle 3).
- The audit committee terms of reference should include oversight of internal audit and monitoring of adherence to professional standards (Principle 3).
- Whether the head of internal audit has the status, resources, expertise and systems needed to perform the role effectively (Principle 4).
- Ensuring that the audit committee supports the head of internal audit and participates in the service's quality assurance and improvement programme (Principle 4).
- Support for the head of internal audit to maintain professional knowledge and extend skills and knowledge (Principle 5).

If the organisation is recruiting a new head of internal audit then the chair of the audit committee may be briefed about the selection process or may participate in the selection. The Statement also includes the personal skills and professional standards that the head of internal audit is expected to meet, and these may be helpful in supporting the selection process.

Additional guidance

To accompany the Statement CIPFA has also published a set of case studies demonstrating how heads of internal audit are putting the principles of the Statement into practice. The examples include supporting the development of the audit committee, reviews of governance arrangements and coaching internal audit team members. Leading Internal Audit can be downloaded from the [CIPFA website](#) and we hope that it will provide further support in understanding the role and potential of the head of internal audit.

Putting the Statement into practice

The committee can use the Statement when it reviews internal audit agenda items at its meetings, for example, an update of the internal audit charter or consideration of the annual opinion and report. The Statement can also inform the committee's review of its own terms of reference, preparation of an annual report or self-evaluation.

Diana Melville

Governance Advisor

CIPFA Better Governance Forum

External Audit Arrangements for English Local Government Bodies

Whilst external arrangements for local government in Wales, Scotland and Northern Ireland have remained stable over the last ten years, arrangements for English bodies: councils, police and fire and rescue organisations, have gone through significant change. And more is set to come.

Minister of State Eric Pickles announced the intention to close the Audit Commission, which had overseen external audit arrangements, in 2010. Whilst some immediate changes such as the cessation of the Comprehensive Area Assessment and the Use of Resources assessments happened straight away, other changes took time to implement. External audits performed by the District Audit team of the Audit Commission were outsourced. The Local Audit and Accountability Act was passed in 2014. Public Sector Audit Appointments was established firstly to oversee the management of the contracts let by the Audit Commission. It was then authorised to conduct a procurement of audit services that local government bodies could choose to opt into. Over 98% of local bodies did choose to do so. Those contracts were let in 2017 to start for the 2018/19 financial year. So only now are the first audits being conducted under the devolved system envisaged by the Act.

The regulation of local auditors also changed under the Act. The Code of Audit Practice, which provides the more detailed framework of the scope of the audit, is now led by the National Audit Office (NAO). The Financial Reporting Council (FRC) was given a new role in relation to audit quality.

Current issues and challenges

Timely completion of the audit

Some organisations are experiencing delays with the completion of their audit because of capacity issues within the audit firms. Recent press reports include an article in [Local Government Chronicle](#) about the impact on 19 councils; but other bodies are likely to be affected.

Satisfaction with the audit process

The recent report from the National Audit Office, [Local Authority Governance](#) included concerns from some of the organisations being audited that the audit provides less in-depth assurance, particularly around governance and the use of resources, than they would like.

Another concern expressed is that prices may have been reduced too much and the quality of audit has suffered as a result. In the NAO's survey a quarter of respondents from single tier and county councils felt their fees were too low relative to the risk that their authority faces.

Similar comments were made in the consultation on the NAO's Code of Audit Practice.

Concerns that audit recommendations do not have the expected impact

In their report on [Local Auditor Reporting](#), the NAO expressed concerns that adverse auditor reports or recommendations were not responded to effectively by the organisations affected and that the impact of a qualified conclusion on value for money appeared to be limited.

Impact of audit issues beyond the public sector

Auditors in the private sector have also faced criticism. For example the auditors of Carillion and Patisserie Valerie are currently under review to ensure that those audits met the standards expected. Whilst these issues relate to private sector audits, inevitably any concerns about the quality and reliability of audit do have an impact more widely.

Another issue is the competitiveness of the audit market and maintaining auditor independence. The independent appointment of auditors in local government has helped the sector avoid the accusation that auditors are too close to the organisations they audit. By contrast, some major companies have retained the same audit firm for more than a decade.

Ensuring effective regulatory reporting

A new role for the Financial Reporting Council (FRC) is to review audit quality in a similar way to the audit quality reviews that they undertake on the firms' corporate client audits. Corporate audit committees receive a report from the FRC on the results of their quality review of the company's audit if one is undertaken. A similar approach would be a new responsibility for a local government audit committee.

Recent reviews and recommendations on external audit

Review of local authority financial reporting and external audit, the Redmond review

This review, chaired by Sir Tony Redmond, was announced by James Brokenshire in July. The review has a broad remit to consider the impact of the changes made by the Local Audit and Accountability Act, plus wider issues around public reporting and the transparency of financial reporting. The review will consider arrangements within all aspects of local government: authorities, police, fire authorities and also smaller authorities. It will not consider the audit of health trusts even though the Act also applied to those bodies.

The [terms of reference](#) of the review have been published by the Ministry of Housing, Communities and Local Government. Whilst the review as a whole will be of interest to audit committees, it is worth noting that the review will consider how effectively local government bodies engage with and respond to audit recommendations. This will of course focus on the role played by the audit committee.

The review will involve consultation with a range of stakeholders, including authorities.

Consultation on the Code of Audit Practice

Earlier this year the National Audit Office published an issues paper to seek views on how it should revise the Code of Audit Practice. The NAO has now published a [summary paper](#) discussing the responses it received and setting out its next steps. There will be further consultation late in the year on the draft of the Code. The latest paper indicates that there will be a greater emphasis on the auditor's assessment of value for money arrangements. This is potentially a helpful change that will provide audit committees with greater insight and assurance.

Market study on statutory audit services: initial consultation

The government recently published [proposals](#) on how it intends to implement the recommendations made by the Competition and Markets Authority on the audit market. The proposals include promoting competition in the audit market through joint audits and ensuring operational splits between audit and non-audit work. There are also recommendations for greater scrutiny from the regulator over the appointment of auditors by the audit committee.

The firms that conduct local audit will be impacted by these proposals in their wider audit work and the proposals could have direct implications for local audit. Further clarity is required on this.

The quality and effectiveness of audit: independent review

The Department of Business Energy and Industrial Strategy (BEIS) has initiated a review, known as the [Brydon review](#), to look at audit scope and reporting across the corporate

sector. It is included here as any recommendations impacting on audit will have some influence on those arrangements in other sectors, including the public sector.

Independent review of the Financial Reporting Council 2018 (Kingman report)

This [report](#) was commissioned by (BEIS) and focused on the role of the FRC. It included arrangements for the regulation of local audit. The report recommended that the FRC should be replaced with a new body, the Audit, Reporting and Governance Authority. It also made recommendations for a fundamental rethink of local audit arrangements and to bring together all regulatory responsibilities for local audit under a single body.

In his response to the report, the secretary of state said that the recommendations relating to the regulation of local audit would be addressed separately. The Redmond review will address these aspects within its scope.

So what does this mean for local government?

In summary, the future shape of local audit arrangements is fluid. It seems likely that the proposals will seek to strengthen and improve the impact of local audit. For local bodies this could mean more rigorous scrutiny on key risks to value for money, for example financial sustainability or the adequacy of governance arrangements. It is also likely that local bodies will be expected to ensure that their arrangements to engage with the auditors and to receive and respond to auditor recommendations, including the audit committee, are sufficiently robust.

It is too early to speculate whether there will be changes to the appointment mechanism of local auditors. Changes to the current arrangements would require primary legislation and so could not happen quickly.

Steps for audit committees to take now

1. Continue to monitor the current reviews and take opportunities to respond to consultations.
2. Engage effectively with your current local auditor. Where there are issues with delivery (such as a delay in completion of the audit) ensure that they are raised with the engagement partner responsible and with PSAA.
3. Respond effectively to recommendations raised by the local auditor. Monitor the implementation of any action plan to ensure the necessary changes are made.
4. Ensure you have a robust framework for internal assurance. The local auditor's opinion and report are just one source of assurance, albeit a very important one. Audit committees should be clear about how they get assurance and how robust these arrangements are. Pay attention in particular to the Annual Governance Statement, the head of internal audit's annual opinion on governance, risk management and internal control and the quality of your risk management arrangements.
5. If you haven't already done so, complete an evaluation of your audit committee's effectiveness. Are you fulfilling the requirements of your terms of reference and does your work have impact? Do you need any further support in performing your role? [Issue 18 of Audit Committee Update](#) and CIPFA's publication, [Audit Committees Practical Guidance for Local Authorities and Police](#) contain guidance on undertaking a self-assessment of the audit committee. Alternatively, ask your head of internal audit for advice.

Diana Melville

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Recent Developments You May Need to Know About

Regulations

Overview and scrutiny: statutory guidance for councils and combined authorities

The new [guidance](#) includes policies and practices authorities should adopt or should consider adopting when deciding how to carry out their overview and scrutiny functions. The guidance does not apply to audit committees but will be of interest to Councillors in their wider scrutiny roles or for understanding the contribution scrutiny makes to the effectiveness of governance.

Consultations

Consultation on the Code of Audit Practice

The NAO has published its [response](#) to the consultation earlier this year on the development of the new Code. Further consultation will take place in the autumn as the new Code must be approved by Parliament for implementation from April 2020.

CIPFA consultation on simplifying the accounts

CIPFA is conducting a survey on local authority accounts and wants users, such as audit committee members, to complete a short online survey. The results of the survey will be used to inform CIPFA's work to streamline the accounts and improve their accessibility for users. The online survey can be accessed [here](#).

Reports, recommendations and guidance

Public Accounts Committee report: local government governance and accountability

The Public Accounts Committee has concluded that the government has not done enough to ensure that, at a time when local authority budgets are under extreme pressure, governance is improved. The committee found that in some authorities governance is under strain: audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities' commercial investments, and inadequate oversight and scrutiny.

The committee has recommended that the department should assess the governance evidence base available to it and write to them by November 2019, setting out how it will address gaps it has identified. [Public Accounts Committee](#)

Safeguarding public money: are you getting it right?

Guidance from the Accounts Commission in Scotland emphasises the importance of councillor scrutiny of financial safeguards. The report explains the importance of internal controls for managing risk and highlights how mistakes and fraud can happen if controls are weak. The report also covers the roles of internal audit and the audit committee and includes a checklist of key questions. It is a useful resource for all public bodies. [Safeguarding public money](#)

Fraud and irregularity update 2018/19

A summary of the cases of fraud and other irregularities at public bodies in Scotland. Common internal control weaknesses had provided the opportunity for the frauds to take place and public bodies are recommended to review their arrangements. [Audit Scotland](#)

Counter-fraud arrangements in the Welsh public sector

An overview for the National Assembly's Public Accounts Committee of the counter-fraud landscape across the Welsh public sector. [Wales Audit Office](#)

CIPFA Fraud and Corruption Tracker

CIPFA has completed its annual survey of levels of fraud and corruption detected across the public sector in the 2018/19 financial year. The results of this survey will be published in the autumn and will provide a valuable insight into current levels of detected fraud and corruption. [CIPFA Fraud and Corruption Tracker](#)

Policing and fire governance: guidance for police and crime panels

The Local Government Association has published guidance on governance for police and crime panels to provide information about the statutory roles of panels and to highlight good practice. The guidance does not include any reference to the work of police audit committees. [Police and crime panels](#)

Local Enterprise Partnerships: an update on progress

The NAO has published a report reviewing progress in the improvement of governance and assurance. They conclude that the assurance framework is stronger, but it is not yet proven whether it will be effective in detecting and responding to governance failures. [National Audit Office](#)

Guidance for audit committees on cloud services

The NAO has published a guide to brief public sector audit committees about the use of cloud services. It suggests questions to ask at the planning, implementation and management stages. [National Audit Office](#)

Financial Foresight

Grant Thornton and CIPFA have produced a report, [Financial Foresight](#), providing insights into financial sustainability at English local authorities. Understanding the issues will help councils in their longer term financial planning.

Local Audit Quality Forum

The Forum is run by Public Sector Audit Appointments to support council and police audit committees in their role. [Presentations](#) from the June 2019 Forum held in London are now available.

Local government in Scotland: Challenges and performance 2019

A [report](#) from Audit Scotland reviewing the performance of Scotland's councils. It reports that most are managing to improve and maintain services but there are challenges ahead.

Local Government Auditor's Report 2019

This [report](#) from the Northern Ireland Audit Office comments on a range of topics arising from audit work in local government bodies during the 2018/19 financial year. It highlights areas of strength and areas for improvement within local councils.

Developments to Look Out For

New CIPFA Financial Management Code

In the autumn CIPFA will be publishing the Financial Management Code (FM Code). The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time The FM Code sets out the standards of financial management for local government.

The FM Code includes the CIPFA Statement of Principles of Good Financial Management. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners who work within or have a stake in good local authority financial management. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

The FM Code will apply from April 2020, but authorities are encouraged to ensure that their preparation of the 2020/21 budget and longer term strategies and plans aligns to the FM Code.

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