



The Chartered Institute of
Public Finance & Accountancy

CIPFA Better Governance Forum

Audit Committee Update

Helping audit committees to be effective

Issue 30

CIPFA Financial Management Code

Responding to the Redmond Review: Results of CIPFA's Survey on Audit Committees

Briefing on new guidance and resources

February 2020

Introduction

Dear audit committee member,

This is the 30th issue of Audit Committee Update, providing briefings on areas of interest to audit committee members. It is in fact ten years since the first issue of Audit Committee Update in January 2010! We have covered a lot of topics in that time and we will soon be releasing a compendium edition of some of these articles.

This issue includes details of the new CIPFA Financial Management Code which aims to support and embed robust financial management and understanding of financial sustainability in the local government sector. In this issue, we set out how the Code can be used in the work of the audit committee. We are also highlighting aspects of CIPFA's response to the Redmond Review - the study commissioned by the government to review the local audit framework. In particular, it considers the role of the audit committee in responding to audit recommendations.

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

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

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Receive our briefings directly

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
Issue 12 – the content in this issue has been replaced by more recent issues.	
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act	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	Issue 17
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors	Issue 19
CIPFA Survey on Audit Committees 2016	Issue 20
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Developing an Effective Annual Governance Statement	Issue 22
2017 edition of the Public Sector Internal Audit Standards, Risks and Opportunities from Brexit	Issue 23

Issues from 2018	
The Audit Committee Role in Risk Management	Issue 24
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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
CIPFA Statement on the Role of the Head of Internal Audit External Audit Arrangements for English Local Government Bodies	Issue 29

Workshops and training for Audit Committee members in 2020 from CIPFA

Developing 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 internal audit, risk management, assurance planning and improving the effectiveness of the committee.

16 September London

17 September York

29 September Manchester

Police audit committee member development day

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

13 May London

14 May York

Development day for local government audit committees

The 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.

Dates in November/December to be confirmed

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 tailored guidance tailored is available. We can also support an evaluation of the committee and facilitate improvement.

Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee

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- 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 customerservices@cipfa.org or diana.melville@cipfa.org.

The CIPFA Financial Management Code

The CIPFA Financial Management Code was published in October 2019 following a public consultation. It applies to all parts of local government, including local authorities, police and fire and rescue organisations. The aim of the Code is to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time, this is a Code which sets out the standards of financial management for local authorities. It builds upon existing standards and guidance to provide a comprehensive picture of financial management in the authority.

The Code is of interest to audit committee members in a number of different ways:

- It sets out expectations of good public financial management. Supporting strong public financial management is one of the purposes of the audit committee.
- The Code supports the establishment of wider governance arrangements, in particular the role of leadership and accountability. The audit committee will consider these when reviewing the adequacy of governance and the Annual Governance Statement.
- Having effective assurance arrangements in place is a necessary part of financial management. This includes an effective audit committee and also the contribution of internal audit and oversight of external audit arrangements.

This briefing will set out the core principles of the Code and describe the steps that local government bodies are likely to be taking over the next year to ensure that they comply with the principles. It will also identify the opportunities for the audit committee to play its part in adopting the Code.

Principles of the Code

The Code has six principles of good financial management practice:

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to **professional standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The principles are further supported by a series of standards but the Code does not seek to prescribe the detailed financial management processes that local authorities should adopt. Authorities should take into account their financial profile and areas of risk when designing their financial management arrangements.

A crucial aspect of the Code is that financial management should be the collective responsibility of each authority's organisational leadership team. It is in this aspect that there is a clear link to the governance framework for local government: *Delivering Good Governance in Local Government, Framework*.

Applying the Code in Practice

During the course of 2020/21 steps should be taken to implement the Code, assessing whether current arrangements are in alignment with the principles. Many of the standards in the Code reflect existing guidance and requirements so, in theory, they should already be in place. Other aspects reflect recognised good practice that many authorities will have adopted already, however this will not be universal. Throughout the year there will be opportunities to review and reflect on financial management practice and strengthen arrangements where necessary. CIPFA has described the financial year 2020/21 as a 'shadow' year for the Code. By 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code.

The role of the Audit Committee

The Code provides an opportunity for the evaluation of current financial management arrangements and the audit committee should review the outcome of the assessment. This might take the form of a report or presentation to the committee and an action plan for any significant areas requiring improvement. Support from the committee will be helpful for the successful implementation of that action plan.

The committee also has a role to play in ensuring that the assurance arrangements are working robustly. This includes the role of the committee in supporting good governance arrangements and internal audit. It also means that the effectiveness of the audit committee is also an important dimension. If the audit committee is weak and ineffective then it will not be providing effective assurance as required by the Code.

The Code references the CIPFA position statement and guidance publication, [Audit Committees Practical Guidance for Local Authorities and Police](#) so committees should use the improvement tools within that as a basis for their own self-assessment.

The following questions will help the audit committee to understand how the Code is being used and the results of an evaluation.

Key questions to ask:	
1	Is an evaluation against the Code being planned and who will be responsible for this?
2	Will internal audit be contributing to the review or will they be including the Code within their planned audit work?
3	Are there any findings from the review that should be considered for inclusion in the Annual Governance Statement action plan?
4	To what extent do we comply with the Code?
5	What are the results of the assessment of financial sustainability?

Diana Melville

Governance Advisor

Responding to the Redmond Review, CIPFA's response relating to audit committees

The review chaired by Sir Tony Redmond was established in July 2019 and charged with reviewing the implementation of the Local Audit and Accountability Act, as well as related issues concerning the value of audit reports and the transparency of local government financial reporting. It followed reports from the National Audit Office (NAO) [on Local Authority Governance](#) and [Local Auditor Reporting](#) and the [Public Accounts Committee \(PAC\)](#).

The issues raised by the NAO and PAC reports included concerns about the resilience and effectiveness of the local audit market. These concerns have taken on a higher profile over the last few months with a large number of authorities experiencing delays with the audit of their financial statements. The reports also raised concerns about the adequacy of response from some local authorities when auditors raised issues or made recommendations or issued a qualified value for money conclusion. In particular there was concern that audit committees were not robust and influential enough.

CIPFA has made a comprehensive response to the Redmond Review and this can be viewed on the [CIPFA website](#). This article will focus on just one aspect of the review and CIPFA's response - the effectiveness of an authority's response to audit recommendations and the part played by the audit committee.

Questions asked by the Redmond Review Consultation

Chapter 7 of the consultation issued by the Redmond Review was concerned with *The Framework for Responding to Audit Findings*. Specific questions included:

- To whom should external auditors present audit reports and findings?
- What is the membership of the audit committee?
- How should local authorities track implementation of recommendations made by internal audit, external audit and relevant statutory inspectorates?
- Should there be a role for an external body in tracking action taken in response to modified audit opinions and/or statutory recommendations and public interest reports?

The consultation document also noted the absence of statutory guidance on audit committees. Guidance is of course available from CIPFA - the [Position Statement](#) can be downloaded from the website and a more detailed publication is also available, titled *Audit Committees Practical Guidance for Local Authorities and Police*. These do not have statutory backing however.

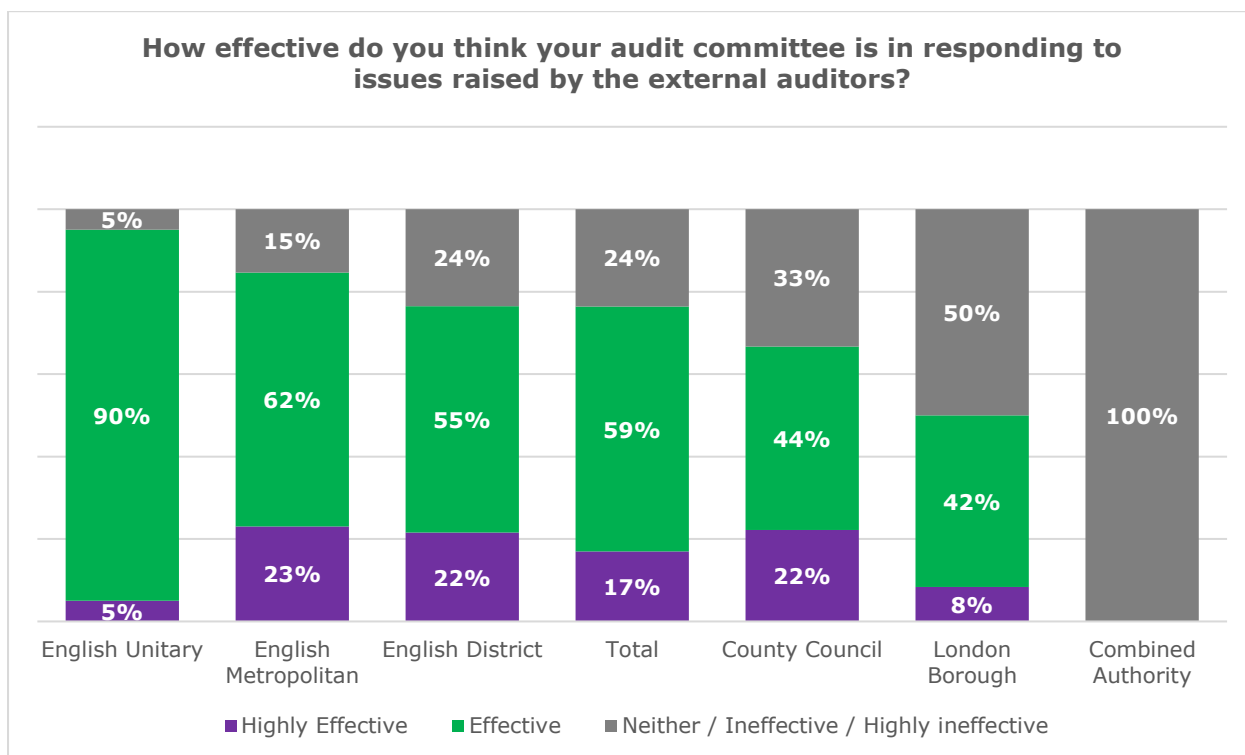
CIPFA's Survey on Audit Committees

In responding to the consultation CIPFA was keen that it explored views on areas for improvement with its stakeholders. Accordingly, CIPFA issued a survey to heads of internal audit in English councils. The survey asked questions about the effectiveness of that council's audit committee in responding to audit recommendations, reporting to full council and options for change. Key results of the survey were included in the CIPFA response, with a separate appendix of results broken down by council type. This can be downloaded from the [CIPFA website](#).

Key results

The survey confirmed the results from CIPFA's earlier surveys that audit committees in local authorities are larger than in other parts of the public sector. The mean size was 8.5 and the maximum size was 17 members. 67% of the committees did not have a co-opted independent member on the committee.

We asked heads of internal audit how effective they thought their audit committee was in responding to issues raised by the external auditors. 17% thought their committee was highly effective and a further 59% saying they were effective. The breakdown of results by council type can be seen in the bar chart below.



The results show that there is room for improvement across many councils, which is in line with the earlier conclusions from the NAO report.

We also asked if the audit committee reported on its activities to full council. Only 72% did so. In addition, for 31% of those who did report to full council, the report took the form of providing the minutes of the meeting. This is likely to mean that the conclusion of the local audit and any recommendations would not have a high profile amongst the wider council membership. CIPFA considers that there is scope to improve reporting and accountability from the audit committee to full council.

CIPFA's recommendations

CIPFA considers that improvements could be made to audit committees in local authorities, enabling them to respond more effectively to audit recommendations. These include:

- Making the establishment of an audit committee a statutory requirement. This was supported by 94% of respondents to CIPFA's survey.
- Statutory guidance should be produced to support audit committees and be principles based (ideally based on CIPFA's Position Statement). The guidance should include the following:
 - recommendations on an effective structure, including the size of the committee
 - support for the non-political nature of the committee
 - recommendations for the inclusion of co-opted independent members and an option for the chair to be a co-opted independent. 68% of respondents to the survey agreed that all local government audit committees should have a mix of councillors and co-opted independent members
 - include appropriate recommendations on the reporting requirements of the committee to support accountability to decision makers
 - specifications on core functions and responsibilities

CIPFA also highlighted issues experienced by police audit committees, which are made up of co-opted independent members acting as an advisory committee to support both the Police and Crime Commissioner and Chief Constable. The key areas were the ability to recruit and retain knowledgeable and experienced independent members and the need for guidance to support the working relationships between the committee members and senior staff or PCC or chief constable to ensure that the audit committee is able to add value.

Next steps

The Redmond Review is expected to report in the summer. If changes to the role, structure or responsibilities of audit committees are proposed then the Secretary of State will have to consider whether to accept them. Any proposals could be the subject of further consultation, so any changes will not happen overnight. CIPFA is of the view that where the impact and effectiveness of audit committees can be improved then remedial steps should be taken sooner rather than later.

The following key questions should be used to consider what could be done to make improvements.

Key questions to ask:	
1	Does the audit committee follow the guidance in the CIPFA Position Statement? Do all audit committee members have access to it and the supporting guidance publication?
2	Has a self-assessment, or other review, of the committee been undertaken in the last 12 months? Improvement tools are available in the CIPFA guidance publication to assist this.
3	Can any changes be made to make the structure of the committee as effective as possible? For example reducing the size of the committee, particularly if there are more than eight members or adding co-opted independent members.
4	Can we improve the reporting on the work of the audit committee to full council, particularly in respect of local auditors' conclusions and recommendations?
5	Is the committee receiving enough support in the form of training and guidance? Have knowledge and skills been assessed to identify where training is needed most?

CIPFA resources

The CIPFA Position Statement and briefings from our surveys of audit committees can be downloaded from the CIPFA website. Please visit www.cipfa.org/services/support-for-audit-committees to access this material.

The publication [Audit Committees, Practical Guidance for Local Authorities and Police](#) is available as a digital version. Many authorities do have this publication already and should be able to make it available to audit committee members at no additional cost.

Support for audit committees from CIPFA is also available with open events, in-house training or facilitation and advisory reviews.

Diana Melville
Governance Advisor

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Recent developments you may need to know about

Legislation, regulations and consultations

New Code of Audit Practice

Following consultation, the NAO has laid a new [Code of Audit Practice](#) before Parliament. It is expected to come into effect for April 2020. The Code must be followed by all local auditors in England. The Wales Audit Office and Audit Scotland have their own codes.

The most significant change is to the auditors' work on value for money arrangements. Instead of issuing a conclusion on whether arrangements are adequate or not, auditors will present a commentary and make recommendations where they consider improvements should be made. It is hoped that this will provide more value to audit clients. The Code encourages timely reporting of any issues rather than waiting until the conclusion of an audit. Again, this is to be welcomed.

Although the code comes into force in April it will apply to audits of the financial year 2020/21. This means that audit reporting for 2019/20 will continue in accordance with the current code. Audit committees will first see the effects of the new code when their local auditor presents their plan for the 2020/21 audit.

The NAO issue guidance notes to auditors to supplement the code. They are planning to consult on new guidance during 2020.

Auditors' work on value for money arrangements

The NAO have issued an updated auditor guidance note, [Auditors' Work on Value for Money \(VFM\) Arrangements](#) to support the audit of 2019/20. The auditor is responsible for providing an opinion on the VFM arrangements and the guidance sets out the overall criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The more detailed criteria are: informed decision making, sustainable resource deployment and working with partners and other third parties.

When the local auditor reports findings to the audit committee they will not provide a specific conclusion against each aspect; only whether the overall criterion has been met or not. Where the auditor considers there may be significant risks to VFM they will need to consider whether any additional work is required before reaching their conclusion.

Reports, recommendations and guidance

The Principles of Public Life: 25 years

To mark its anniversary, the [Committee on Standards in Public Life](#) has made a series of short films on the principles and what they mean in practice. The videos will be useful for training and raising awareness of the principles amongst staff and all holders of public office.

Sustainability and Good Governance

This is a briefing from the [CIPFA Better Governance Forum](#) that examines the importance of sustainability to good governance and considers different aspects within the principles that underpin the annual governance statement. The briefing also includes some key questions to support the annual review.

Financial Resilience Index

CIPFA's [Financial Resilience Index](#) is a comparative analytical tool that may be used by chief financial officers to support good financial management, providing a common understanding within a council of their financial position. The indicators take publicly available data and compare similar authorities across a range of factors. It is available on the CIPFA website.

Local authority investment in commercial property

The [NAO report](#) reviews the arrangements for managing investments in commercial property. Local external auditors have indicated to the NAO that there is room for improvement in the governance and risk mitigation arrangements of some authorities over their commercial investments.

Brydon review: The quality and effectiveness of audit

The [Brydon review](#) is the latest in a series of reviews in the last year on external audit and regulation. Key conclusions and recommendations include separating audit from the accounting profession and reinforcing its role as a public interest function.

Whilst the review focuses on corporate audit, it will inevitably have implications for local audit since the firms providing local audit also provide company audit. The Redmond Review (to be published later in 2020) will need to take the recommendations of the Brydon Review into account.

Aid to audit committees in evaluating audit quality

The [Audit Quality Practice Aid for Audit Committees](#) from the Financial Reporting Council is written for private sector audit committees but includes some useful questions for any audit committee to use when meeting with external audit.

Local Audit - Quarterly monitoring

This is the first [Quarterly Monitoring Report](#) from Public Sector Audit Appointments (PSAA) on the 2018/19 audits and includes a table on delayed audit opinions by firm.

Local Audit Quality Forum

The presentations from the November event are available to download from the [Public Sector Audit Appointments website](#). The materials include an update from PSAA on the delays to the finalisation of the audit of accounts at many authorities and good practice sessions.

Performance Tracker 2019

Published by the Institute for Government and CIPFA, [Performance Tracker 2019](#) projects the demand and spending on nine public services for the next five years: GPs, hospitals, adult social care, children's social care, neighbourhood services, police, prisons, courts, and schools.

The report finds that all public services analysed have seen some decline in performance – either in their quality (the standard of public service provided and how satisfied users are) or scope (the range of services provided and the number of people able to access them).

Round-up for audit committees

A summary of recent NAO reports and guidance relevant for audit committees is available from the [NAO website](#).

CIPFA Fraud and Corruption Tracker (CFaCT) survey

CIPFA has published the [summary report](#) from its survey of fraud and corruption experienced by local authorities in 2018/19. The three greatest areas of perceived fraud risk continue to be procurement, council tax single person discount and adult social care.

Local government in Scotland

Most of Scotland's 32 councils are increasingly relying on money from reserves to keep up with demand for services and balance their budgets according to the latest report [Local Government in Scotland](#) from the Accounts Commission.

NHS financial management and sustainability

The NAO's latest report on [NHS financial management and sustainability](#) concludes that the short-term fixes that DHSC, NHS England and NHS Improvement put in place to manage resources in a constrained financial environment are not sustainable. Delivery of long-term financial sustainability is at risk unless every organisation is on a realistic path to breaking even.

Review of Public Services Boards

A review of the [Public Service Boards](#) by the Wales Audit Office has found that changes are needed if they are to realise their full potential. The report says that public bodies haven't always taken the opportunity to effectively organise and resource the work of public service boards and they are not consistently being scrutinised or held to account.

Financial management and governance – Community and town councils 2018-19

The Wales Audit Office have published an [overview report](#) of the audits of town and community councils. 218 councils either failed to comply with their statutory requirements, or mis-stated information in their annual return.

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