

Audit Committee Update

Helping audit committees to be effective

Issue 35

July 2021

Supporting improvements to risk management arrangements

Defining the relationship between the audit committee and the scrutiny function

New consultation on local audit and audit committee arrangements

Regular briefing on new developments

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Introduction

Dear audit committee member,

Welcome to the latest issue of audit committee update from the CIPFA Better Governance Forum. This resource aims to support audit committee members in their role by helping to keep them up to date.

In the latest issue, we address several themes. Firstly there is a focus on risk management and the support that the audit committee can provide for improving local arrangements. Secondly there is a review of the differences between the work of the audit committee and scrutiny and opportunities to work together. Finally there is an update on the new consultation launched by the Ministry of Housing, Communities and Local Government on local audit and audit committees.

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.

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

A link to this briefing will be included in the newsletter for subscribers to the CIPFA Better Governance Forum. It can then be shared with that organisation's 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 please visit: www.cipfa.org/Register.

Webinars and training for audit committee members in 2021 from CIPFA

Introduction to the Knowledge and Skills of the Audit Committee

Provisional dates for this are:

- 8 and 9 September (morning only)

Introduction to the Knowledge and Skills of the Police Audit Committee

Provisional dates for this are:

- 15 and 16 September (morning only)

Update for Police Audit Committee Members

This webinar is suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables. It is run in conjunction with CIPFA's Police and Fire Network. Provisional date October 2021

Update for Local Authority Audit Committee Members

This webinar will provide an update for local authority audit committee members on the annual governance statement for 2020/21. Provisional date December 2021/January 2022.

Full programme details and booking information for webinars in 2021 will be announced later in the year and will be available on the [CIPFA website](#) in due course.

In-house training, facilitation and evaluation of your audit committee

In-house training, webinars and guidance tailored to your needs are 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.

We can also undertake an effectiveness review of the committee, providing feedback on areas the committee can improve on and supporting the development of an action plan.

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

Supporting improvements to risk management arrangements

How the audit committee can help

One of the ‘lessons learned’ from the experience of the last year in many organisations is that there is merit in making changes and improvements to their risk management arrangements. Oversight of the overall effectiveness of risk management arrangements is firmly within the terms of reference of the audit committee. It is an area where there should be assurance over arrangements through the annual governance review and from the head of internal audit’s annual opinion. In addition those directly responsible for risk management are likely to report to the audit committee with their evaluation of effectiveness and any action plan to make improvements.

The experience of the pandemic on risk management

The Better Governance Forum held two discussion groups with members in April 2021 to discuss the experience of the pandemic and what it meant for risk management. The detailed results of the discussions are available in a [briefing](#) to download. The groups discussed how their arrangements had fared in supporting the organisation’s management through the pandemic. The paper contains a summary of the findings identifying strengths and also areas for improvement.

There was a range of experience amongst those taking part. Some felt that the risk arrangements that they had put in place and the investment made to improve understanding of risk throughout the organisation had proved their worth during the pandemic. In other organisations, systems to manage risk were not adequate and a poor understanding of risk amongst the leadership team did not help decision making in a crisis.

Improving your risk management arrangements

As an audit committee member you should have a good understanding of how risks are being identified and managed within the organisation. You should also understand the strengths and weaknesses of these arrangements. If you are new to the committee, ask if there is an annual report from the lead officer responsible for risk management or speak to the nominated risk champion amongst the councillors or governing body. Information should also be available through the annual governance statement and from internal audit. Your external audit reports may also include commentary as part of their assessment of your overall governance. Your organisation may take part in benchmarking of its risk management arrangements or undertake a risk maturity assessment. These conclusions should be reported to the committee in some form.

If a lessons learned review has been undertaken or is planned, then that will be helpful for the audit committee to see. It will be a source of assurance on the adequacy of the organisation’s controls and governance. If there are significant areas for improvement that are within the remit of the committee, it would be appropriate to receive updates on action plans as they progress.

In respect of risk management, be guided by the organisation’s own evaluation, but from the experience of other organisations possible areas for improvement could include:

- A change or improvement of the IT system used to capture risk information and provide management information.
- Further investment in staff training, plus training for those in governance positions, to improve understanding of risk and improve the quality of risk information.
- Reviewing arrangements for the governance of risk; for example, creating or raising the importance of a central group to review risk information, or improving the leadership of risk.
- Improving links between the risk management processes and other policies and plans to ensure better integration.
- Improving the effectiveness of risk monitoring and action tracking to ensure that risks are being actively managed.

Support from the audit committee for planned improvements to risk management arrangements will be important for their success. The committee can provide constructive challenge when they review and monitor action plans. They can also help to raise the profile of risk management, particularly among fellow members of the governing body.

Conclusions

For a public body having effective risk management arrangements in place is essential. To achieve its objectives efficiently and effectively, the organisation will need to have a good understanding of both risk and opportunities, and the means to manage them. Having good insight on the adequacy of your arrangements is a necessary step for an audit committee. The experience of going through the pandemic has brought the adequacy of arrangements into sharp focus and many organisations will have areas they wish to improve on. The audit committee can play its part to provide support and challenge to the risk management function.

Key questions for the committee

Questions to discuss with lead officers and members responsible for risk management:

1. Are our risk management arrangements adequate and effective?
2. What assurances do we have to inform that conclusion? Examples could include:
 - a. Internal audit report
 - b. Annual self-assessment by a corporate risk group
 - c. Evidence from a risk maturity assessment or benchmarking exercise
 - d. Review by the organisation's insurance advisors
 - e. Commentary by external auditors.
3. Is there an action plan to improve our risk management arrangements? Will updates be brought to the committee?
4. What were the key lessons learned from the pandemic?

Diana Melville

Governance Advisor, CIPFA

Defining the relationship between the audit committee and the scrutiny function

In councils the audit committee operates alongside scrutiny. Depending on the constitution of the council, scrutiny can operate in different ways. Within the cabinet model there may be one or more dedicated scrutiny committees that focus on core policy areas of the council.

Alternatively scrutiny will take place within service committees. Scrutiny is major way for elected councillors who are not in leading roles to review policy and contribute to its development.

Distinguishing the audit committee role from that of scrutiny can be difficult, even where the committees are not combined into one. The CIPFA guidance [Audit Committees: Practical Guidance for Local Authorities and Police](#) does recommend that the two roles are not combined and that there should be a dedicated audit committee. The key difference between the two is that scrutiny has a focus on policy: its development, its performance and its effectiveness. The audit committee will focus on the enablers that support policy decision making and its implementation, ie governance, risk management and internal control arrangements.

Scrutiny arrangements are usually political and can present robust political challenge to the administration. One of the key characteristics of an audit committee is that it should be resolutely non-political. Another difference is the approach to performance. Scrutiny is likely to be playing an active role in monitoring the performance of the council, including financial performance. While a scrutiny committee might focus on the performance in the year against the budgeted income and expenditure, the audit committee will focus on the framework of financial management and robustness of financial control arrangements.

Audit and scrutiny working together

While the committees should be separate and have different roles, there are opportunities for collaboration where their separate responsibilities intersect. These areas have been explored recently in a briefing from the Centre for Governance and Scrutiny, [Audit Committees and Scrutiny Committees: Working Together](#). The briefing was prepared with reference to the CIPFA guidance and CIPFA provided comments on the draft to help ensure that it was consistent.

Possible areas for collaboration could include risk management and value for money. Scrutiny and the audit committee would focus on their separate responsibilities, but an awareness of the output and work programme of each other can inform plans and avoid duplication. There may be occasions where the audit committee will make a recommendation to a scrutiny committee. An example of how this might occur is set out below.

An internal audit report on a major service area has concluded with a 'limited' assurance rating. One of the main areas of weakness identified was poor performance levels from outdated delivery methods. To inform the policy review being taken forward by the head of service, the audit committee recommends that the appropriate scrutiny committee should consider contributing to the development of a new policy and approach.

In the example above the audit committee fulfils its responsibilities by receiving the internal audit report and supporting an appropriate response to the issues raised by the auditors.

Scrutiny can play its part by taking forward performance oversight and policy development in respect of the service area.

How effective is scrutiny?

When the audit committee reviews the annual governance statement it should be aware of the effectiveness of the council's scrutiny arrangements. Having effective scrutiny arrangements is one of the criteria underpinning the principles of good governance:

"It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority."

[Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016)

To support effective scrutiny there are frameworks in place to support review; for example, the Centre for Governance and Scrutiny produce a [Scrutiny Self-evaluation Framework](#). Where scrutiny is weak it can be a contributing factor to, or even a symptom of, wider governance issues within the council. The audit committee should support improvement across the organisation's wider governance arrangements.

Conclusion

Both the audit committee and scrutiny function have vital roles to play in the governance of the council, but they are separate and distinct roles. They can and should work together to help secure improvements but should be careful not to duplicate or overlap. Supporting and encouraging effective scrutiny arrangements will reinforce good governance.

Diana Melville

Governance Advisor, CIPFA

Summer update on local audit and new consultation

In May the Ministry of Housing Communities and Local Government (MHCLG) issued a [spring update](#) on progress against the Redmond Review recommendations. In July a further [update](#) has been issued including consultation questions on:

- strengthening the effectiveness of audit committees in English local government
- the role of the Audit Reporting and Governance Authority (ARGA) in providing system leadership over local audit
- addressing concerns about auditor training and supply
- the local audit of smaller bodies.

This briefing will focus on the main points directly relevant to the audit committee.

Audit committee members new to the role may be unfamiliar with the Redmond Review and the recommendations. It is of direct relevance to the work of the committee and earlier issues of [Audit Committee Update](#) would provide helpful background:

- Issue 29: External Audit Arrangements for English Local Government Bodies
- Issue 30: Responding to the Redmond Review: Results of CIPFA's Survey on Audit Committees
- Issue 31: Focus on Local Audit
- Issue 33: Update on the Redmond Review

Enhancing the governance for responding to local audit findings

Audit committees – background

The Redmond Review commented that local government bodies were not always effective in their response to the findings of the local auditors. In particular, it highlighted the mixed experience of audit committees within councils and reporting relationships between the committee and full council. Specific recommendations included:

- an annual report submitted to Full Council by the external auditor
- consideration given to the appointment of at least one independent member, suitably qualified, to the audit committee.

MHCLG accepted the recommendations and established a working group to consider how the recommendations could best be taken forward. The group included CIPFA, the LGA, Public Sector Audit Appointments (PSAA), MHCLG and the Home Office, as well as the NAO in an observer capacity.

Audit committees – action to take now

Following on from the work of the group, MHCLG has recommended that local authorities should review the existing structure of their audit committees to consider whether their arrangements support effectiveness. They should use the existing CIPFA Position Statement and supporting publication, Audit Committees: Practical Guidance for Local Authorities and Police (2018) to support their review. Key aspects to consider include:

- a. Whether the committee is dedicated to the functions of an audit committee and not combined with other responsibilities such as scrutiny.
- b. Whether the committee reports directly to full council.
- c. Whether the size and make-up of the committee supports its effectiveness.

- d. The number and role of the independent member or members and whether new or additional independent members are required. The department would recommend the inclusion of at least one independent member, but more than one may be helpful.

When seeking to take on new or additional independent members the authority should take into account the knowledge and expertise required to complement the existing committee members.

Guidance for audit committees

While guidance is already available, MHCLG has recommended that it be strengthened and updated to support effective audit committee arrangements. The consultation asks for comments on this proposal and whether it is agreed. The updated guidance is likely to include the following:

- structure
- role of independent members
- how the committee interacts with full council
- reporting to those charged with governance
- core functions
- knowledge, expertise and training of audit committee members
- facility to meet privately with auditors.

Longer term improvement of the audit committee

Currently the expectation that local bodies should have proper arrangements in place for their audit committee is reinforced by the new 2020 Code of Local Audit Practice, specifically the review of governance arrangements in the value for money commentary. There is a consultation question on whether this is sufficient or whether the department should take further steps towards making the committee a statutory requirement.

Reporting to full council/those charged with governance

MHCLG is proposing to amend the Accounts and Audit Regulations so that the full council should receive the auditor's annual report from the local auditor. The purpose of this is to improve transparency to the public and ensure all members are aware of issues raised by the auditor and recommendations. It is also proposed that it is accompanied by a report from the audit committee containing its responses to the auditor's annual report.

Internal audit

In his report Sir Tony commented on the value of internal audit within local government bodies. The department agrees with him, and in the statement emphasises to local government bodies the importance of operating in accordance with the requirements of the Accounts and Audit Regulations 2015 to ensure effective internal audit. It encourages the NAO to consider more reference to internal audit in its own guidance to local auditors.

Other matters in the consultation

This briefing has focused on the matters directly impacting on the audit committee, but there are other consultation questions that are also of interest for the committee. Understanding the role and responsibilities of the system leader for local audit is relevant and the specific questions should be considered. For example, there are questions concerning the annual report content from the system leader and future reviews of the Code of Audit Practice. In addition, all stakeholders have an interest in the stability of the local audit market and the

availability of adequately experienced auditors. These will have consequences for future procurement arrangements.

Responding to the consultation

While some of the audit committee issues are particularly relevant for councils, the consultation questions potentially apply across all local government bodies. The consultation does encourage a wide response from all authorities.

The consultation was published on 28 July with a response time of eight weeks. CIPFA will be responding to the consultation and would encourage all local government bodies in England to respond too.

Diana Melville

Governance Advisor, CIPFA

Recent developments you may need to know about

Reports, recommendations and guidance

Local auditor reporting on local government in England

The National Audit Office has published a report, [Timeliness of local auditor reporting on local government in England, 2020](#) on the local audit system. This has been followed up by a report from the Public Accounts Committee, [Local auditor reporting on local government in England](#). The report describes the system of local government audit as being close to “breaking point”.

Guidance for audit committees on cloud services

The guidance provides an overview of cloud services and outlines government policy on their use. It then sets out specific questions for audit committees to consider asking when engaging with their management. [National Audit Office](#)

Climate and sustainability reporting

In a new research report, [Evolving Climate Accountability: A Global Review of Public Sector Environmental Reporting](#), CIPFA has identified that more than half of public sector organisations do not currently report on their climate impact. It identifies seven key areas for the development of public sector sustainability reporting.

Initial learning from the government’s response to the COVID-19 pandemic

The report from the [National Audit Office](#) sets out learning across six themes:

- risk management
- transparency and public trust
- data and evidence
- co-ordination and delivery models
- supporting and protecting people
- financial and workforce pressures.

Fraud and irregularity 2020/21

A report from [Audit Scotland](#) setting out the fraud risks emerging since the start of the pandemic. It also shares information about cases where internal control weaknesses have led to fraud and irregularity.

Local government in Scotland overview 2021

The [overview report](#) from Audit Scotland examined the impact of COVID-19. It concludes that councils and communities worked well together, but the impacts of COVID-19 were unequal.

Code of Audit Practice – Scotland

The new code defines the independent audit of public bodies in Scotland. [Audit Scotland](#)

COVID-19: Local government finance

The [Public Accounts Committee report](#) concludes that the department's over-optimism about the resilience of local government is not matched by the reality. The long-term systemic funding issues in local government mean that sector representatives are clear that most councils will not be able to manage solely using reserves.

Local authority financial sustainability and the Section 114 regime

The report from the [Housing, Communities and Local Government Committee](#) says that council finances are unsustainable without reform. It also recommends removing powers to appoint their own auditors and suggests a new 'yellow card' for the chief financial officer to use before a S.114 becomes necessary.

Financial sustainability of local authorities visualisation: update

The [National Audit Office](#) has updated the interactive model showing financial sustainability information for each local authority in England.

Northamptonshire County Council: lessons learned report

Report from the council's commissioners identifying lessons learned. [Ministry of Housing, Communities and Local Government](#)

Liverpool City Council: Best Value inspection report

The report identifies failings in governance and control of trading companies. [Ministry of Housing, Communities and Local Government](#)

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
Please note the content from some earlier issues has been replaced by more recent issues and so they are not listed below.	
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
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act	Issue 13
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
The Audit Committee and Internal Audit Quality	Issue 21
Issues from 2017	
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
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
CIPFA Statement on the Role of the Head of Internal Audit External Audit Arrangements for English Local Government Bodies	Issue 29
Issues from 2020	
CIPFA Financial Management Code, Responding to the Redmond Review: Results of CIPFA's Survey on Audit Committees	Issue 30
Compendium Edition: Reviewing the Audit Plan, Self-assessment and Improving Effectiveness, Developing an Effective Annual Governance Statement and Focus on Local Audit	Issue 31
COVID-19 Pandemic – Key Issues for the Audit Committee Regular Briefing on New Developments	Issue 32
The head of Internal audit annual opinion for 2020/21 Update on the Redmond Review	Issue 33
Issues from 2021	
The Annual Governance Statement for 2020/21, Internal audit and external audit working together	Issue 34

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