CIPFA Better Governance Forum

Audit Committee Update
Helping Audit Committees to Be Effective

Issue 20

CIPFA Survey on Audit Committees 2016

August 2016
Introduction

Dear audit committee member,

In the latest issue of Audit Committee Update we feature some of the main findings from our research into audit committees in local authorities and police. Further details will be on the CIPFA website shortly but this briefing provides the first insights. Our surveys were completed by 307 heads of internal audit, chief financial officers (CFOs) and chairs of audit committees at local authorities and police bodies and provide an excellent insight into the successes and challenges of audit committees in these sectors. We hope the material will help audit committee members and those working with the committee to compare and review their own arrangements and look for opportunities to improve further. We will be publishing further details to facilitate your comparisons.

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

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

Best wishes

Diana Melville

CIPFA Better Governance Forum

Sharing this Document

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

Audit Committee Update is covered by CIPFA’s copyright and so should not be published on the internet without CIPFA’s permission. This includes the public agendas of audit committees.

Receive our Briefings Directly

This briefing will be sent to the main contact of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be sent to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. To register now, please visit www.cipfa.org/Register.
### 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.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Principal Content</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Issues from 2010 – subsequent issues have updated the content in these issues.</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Issues from 2011</strong></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit</td>
<td>Issue 4</td>
</tr>
<tr>
<td>5</td>
<td>Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA’s Survey of Audit Committees in Local Government</td>
<td>Issue 5</td>
</tr>
<tr>
<td>6</td>
<td>Partnerships from the Audit Committee Perspective</td>
<td>Issue 6</td>
</tr>
<tr>
<td></td>
<td><strong>Issues from 2012</strong></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation</td>
<td>Issue 7</td>
</tr>
<tr>
<td>8</td>
<td>Commissioning, Procurement and Contracting Risks</td>
<td>Issue 8</td>
</tr>
<tr>
<td>9</td>
<td>Reviewing Assurance over Value for Money</td>
<td>Issue 9</td>
</tr>
<tr>
<td></td>
<td><strong>Issues from 2013</strong></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements</td>
<td>Issue 10</td>
</tr>
<tr>
<td>11</td>
<td>Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA’s Guidance on Audit Committees</td>
<td>Issue 11</td>
</tr>
<tr>
<td>12</td>
<td>Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues</td>
<td>Issue 12</td>
</tr>
<tr>
<td></td>
<td><strong>Issues from 2014</strong></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues</td>
<td>Issue 13</td>
</tr>
<tr>
<td>14</td>
<td>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</td>
<td>Issue 14</td>
</tr>
<tr>
<td>15</td>
<td>CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, the Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments</td>
<td>Issue 15</td>
</tr>
</tbody>
</table>
Issues from 2015

<table>
<thead>
<tr>
<th>Issue</th>
<th>Title</th>
<th>Issue Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>What Makes a Good Audit Committee Chair? Governance Developments in 2015</td>
<td>Issue 16</td>
</tr>
<tr>
<td>17</td>
<td>The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments</td>
<td>Issue 17</td>
</tr>
<tr>
<td>18</td>
<td>Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues</td>
<td>Issue 18</td>
</tr>
</tbody>
</table>

Issues from 2016

<table>
<thead>
<tr>
<th>Issue</th>
<th>Title</th>
<th>Issue Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues</td>
<td>Issue 19</td>
</tr>
</tbody>
</table>

Workshops and Training for Audit Committee Members in 2016 from CIPFA

Introduction to the audit committee
This event is particularly suitable for those relatively new to the audit committee and it is applicable for audit committees in all parts of the public and not for profit sector. It includes an overview of the roles, responsibilities and core functions of the committee, together with sessions on working with the internal and external auditors.

- 13 September 2016, Leeds
- 8 December 2016, London

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

- 14 September 2016, Leeds
- 21 September 2016, London

Developments in 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.

- 15 September 2016, London
- 28 September 2016, York

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.

- 30 November 2016, London
- 7 December 2016, Birmingham

Further details and booking for these events will be available soon.

CIPFA events information and dates are available on the website.
In house training and facilitation

In house audit committee training and guidance tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

For further details contact blane.sweeney@cipfa.org or email diana.melville@cipfa.org or visit the CIPFA website where we have a brochure to download outlining the support we have available for audit committees.
CIPFA Survey on Audit Committees in Local Authorities and Police

In March and April this year CIPFA undertook a series of surveys on the operation of audit committees in local authorities and police. The surveys aimed to update our understanding of how committees in the sectors were operating and also identify results that would support organisations to review and assess their own committees. This briefing contains some of the key findings from the surveys and identifies the further information that is being made available by CIPFA.

Some of the survey results can be compared to the results of a similar survey by CIPFA in 2011. In addition, by covering committees in two different sectors comparisons can be made between police and local authority committees. The surveys sought the views of audit committee chairs and also the views of either the head of internal audit in local authorities or the CFO for the PCC. As a result we can compare two different perspectives.

The surveys had an overall response rate of 53% for the head of audit/CFO survey and 25% for the chairs’ survey.

**Featured results**

**Committee structure in local authorities**

There has been an increase in the average size of audit committees in local authorities since 2011, from seven to nine. There has been a small increase in the number of co-opted independent members on the committee, from 31% of committees in 2011 to 39% in 2016. Almost all Northern Irish and Welsh committees have a co-opted member, as it is a statutory requirement in Wales and there has also been a strong push to encourage independents by the Northern Ireland Audit Office. In England, 50% of London boroughs and 65% of metropolitan district councils have a co-opted independent on their committees. Counties, districts and Scottish councils are the least likely to include a co-opted member.

**Audit committee effectiveness**

We asked the chairs of the audit committees and either the head of internal audit or CFO to express their views on the effectiveness of their committees. The graphs below show the similarities and differences of these views.

Based on the perceptions of key officers interacting with the audit committee, it would appear that police audit committees are more likely to be judged as ‘very effective’ than local authority audit committees are.
There is, however, not the same distinction between the views of chairs. Local authority chairs are more positive than police chairs about their own effectiveness.

It is particularly interesting to note the profile of responses. Across all respondents ‘supporting the internal audit process’ came out as the area where the committee was most effective. ‘Assurance over partnerships’ was a much weaker area and communicating the work of the committee did not score highly either.

**Addressing the barriers to effectiveness**

The graph below compares the views of audit committee chairs on the barriers to improving the effectiveness of their committee. A significant number of both police and local authority
chairs did not identify any barriers, however other areas were considered to be important for a significant number of chairs. What is particularly striking is that police chairs and local authority chairs tended to identify different barriers. In the local authority sector ‘limited knowledge and experience’ was the major barrier, whereas police chairs were more likely to identify barriers resulting from poor working relationships: ‘committee is not considered a priority by the PCC and chief constable’ and ‘committee is not considered a priority by senior management’ scored the highest responses.

The difference here is not surprising considering the different composition of the committees: local authority committees are primarily made up of elected representatives whereas police committees are all made up of independent members appointed to the role. While police audit committee members may bring knowledge and experience to the role there is a risk that they will be less familiar with the challenges and approaches of the police and it may be more difficult to forge effective relationships. There has also been the added challenge of a new committee finding its feet during a time of unprecedented structural change.

Training and support for audit committee members

As well as formal training, audit committee members need access to briefings and updates on new developments in the organisation and on technical and professional matters that will feature on the committee agenda. We asked chairs about their access to this wider support.

<table>
<thead>
<tr>
<th>Do members of the audit committee have access to any of the following resources and support?</th>
<th>Local authority chairs</th>
<th>Police chairs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular training on relevant subjects</td>
<td>62%</td>
<td>47%</td>
</tr>
<tr>
<td>Regular briefings on relevant subjects</td>
<td>82%</td>
<td>76%</td>
</tr>
<tr>
<td>Regular briefings or updates on developments affecting the council/police</td>
<td>84%</td>
<td>76%</td>
</tr>
<tr>
<td>None of the above</td>
<td>5%</td>
<td>12%</td>
</tr>
</tbody>
</table>

More chairs have access to briefings than formal training and a high percentage at both local authorities and police have access to updates on organisational developments. A small
percentage consider they don’t have access to briefings or support at all, which is of concern.

It is clear from the responses and the comments that many organisations are trying to meet training and support needs.

- **At each audit committee meeting we ensure members are given a presentation on a topic of interest or service area/function of their choice to add variety to the agenda and enable them to learn more about council activities and services, in addition to usual briefings on emerging developments in risk and governance issues.**

  Head of internal audit English district council

Chairs also commented on the importance of training to support their committee:

- **Audit committees in local government would operate more effectively if the skills and experience of members were formally captured and individual training programmes developed.**

  Chair English district council

- **External training should be offered in house on a regular basis. Internal training is all well and good but there needs to be more input from impartial professionals who can provide committee members with the guidance as to what they should be looking for in audit terms.**

  Chair English unitary council

- **I am embarrassed with the lack of skills and qualifications of many of our members. This despite a full and effective training programme being available. PLEASE do what you can to enforce obligatory training.**

  Chair English district council

CIPFA appreciates the time taken by all those who responded to the survey and provided comments.

CIPFA has prepared extensive briefings on the findings which will be available to download from the website shortly. Better Governance Forum subscribers will also have access to tables showing the results of the survey. We hope that the material will inform all those working with audit committees or are members of audit committees. The briefings also make recommendations to draw attention to key findings.

CIPFA will also be writing to DCLG and the Home Office to draw their attention to some of the findings.

Diana Melville
Governance Advisor
Recent Developments You May Need to Know About

Legislation, regulations and consultations

Appointment of local auditors

Under the Local Audit and Accountability Act 2014, the Audit Commission, which had previously managed the appointment of external auditors for local government bodies and health trusts, was abolished and new responsibilities to manage their own appointment of local auditors given to those bodies. The Act also provides for the appointment by the secretary of state of a ‘sector led body’ to be an appointing person. This body would provide the option of a managed appointment process for those who wished to select it.

Public Sector Audit Appointments (PSAA) have now been approved by DCLG to be a sector led body for principal authorities – councils, police and fire bodies. PSAA had already issued a prospectus setting out some of their proposals were they to be confirmed and they are seeking responses to their suggested approach. This is available on the PSAA website.

If your organisation is considering choosing PSAA then it is likely that the formal invitation needs to be accepted in the autumn. The decision to choose this route must be made by the appropriate body: full council, the fire authority or the PCC. It cannot be delegated.

The appointment route set out in the legislation is to establish an auditor panel to advise on appointment, with the final decision again being made by full council, the fire authority or the PCC as appropriate. Authorities can work collaboratively, sharing a panel if they choose. All appointments must be in place by December 2017.

The previous issue of Audit Committee Update set out the details of the legislative requirements in more detail. There is also a publication, Guide to Auditor Panels, which can be downloaded from the CIPFA website.

Reports, recommendations and guidance

Delivering Good Governance in Local Government

The guidance notes to support the new Framework are now available for English local authorities and for police. The publications for Welsh and Scottish authorities will be available in the autumn. The framework applies from April 2016 and will need to be reflected in the annual governance statement for 2016/17.

- English local authorities
- Police
- Welsh local authorities
- Scottish local authorities

Accountability System Statement

The updated system statement sets out the core local government accountability framework. It includes how the system responds to failure and how the department gets assurance and information on financial sustainability and effectiveness. There is also a new section on how the framework is being adapted in the light of devolution deals within England.

Communities and Local Government
**Derby City Council: Report in the Public Interest**
An external auditor issues a report in the public interest when there are serious failings of governance or financial management identified. Grant Thornton issued a report on Derby City Council because of the council’s failures of governance in the management of major projects and the inappropriate involvement of members in operational matters. All reports in the public interest are published on the [PSAA website](http://www.cipfa.org/services/networks/better-governance-forum).

**The National Audit Office’s Role in Local Audit**
This National Audit Office leaflet provides information on its role in local audit. It includes examples of its recent value-for-money work focused on local services, and contact details for you to provide views and suggestions or to ask questions about their work. Recent studies have included:

- financial sustainability of local authorities, capital expenditure and financing
- local enterprise partnerships
- financial sustainability of fire and rescue services.

[National Audit Office](http://www.cipfa.org/services/networks/better-governance-forum)

**Cities and Local Growth – Public Accounts Committee**
The Public Accounts Committee (PAC) has examined the devolution of powers, funding and responsibility to local areas through a range of mechanisms, including local enterprise partnerships, city deals and devolution deals. The committee has expressed concerns that “not all devolution deals are coherent: they lack clear objectives; and are not aligned geographically with other policies or local bodies. There has been insufficient consideration by central government of local scrutiny arrangements, of accountability to the taxpayer and of the capacity and capability needs of local and central government as a result of devolution.”

The committee has also expressed concern that existing arrangements for scrutiny at the local level of devolved functions are neither robust enough nor well supported. It has recommended that the government should set out its plans for ensuring there is robust local scrutiny by November 2016. [Cities and Local Growth](http://www.cipfa.org/services/networks/better-governance-forum)

**Cards on the Table: English Devolution and Governance**
A report by the Centre for Public Scrutiny considering the role of governance in shaping the development of devolution deals. It is intended to be a resource to support those developing devolution arrangements and also to support those who will provide scrutiny of the arrangements. [Centre for Public Scrutiny](http://www.cipfa.org/services/networks/better-governance-forum)

**Failing Well**
This report from the Institute for Government provides insights on dealing with failure and turnaround from four critical areas of public service delivery. The report raises concerns that there is a greater risk of failure in the public services as a result of budget pressures and structural changes. It also highlights governance aspects that make an organisation more likely to fail. [Institute for Government](http://www.cipfa.org/services/networks/better-governance-forum)

**CIPFA Fraud and Corruption Tracker 2016**
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 £271m worth of fraud has been detected or prevented within the public sector in 2015/16. [CIPFA Counter Fraud Centre](http://www.cipfa.org/services/networks/better-governance-forum)

**National Fraud Initiative**
Reports from the latest data matching fraud investigations in the UK are now available for Wales, Scotland and Northern Ireland. The report for England has not been published yet.

- [Northern Ireland report](http://www.cipfa.org/services/networks/better-governance-forum)
- [Scotland report](http://www.cipfa.org/services/networks/better-governance-forum)
- [Wales report](http://www.cipfa.org/services/networks/better-governance-forum)