

CIPFA Better Governance Forum

Audit Committee Update

Helping Audit Committees to Be Effective

Issue 18

Self-assessment and Improving Effectiveness

Appointment and Procurement of External Auditors

Regular Briefing on Current Issues

November 2015

Introduction

Dear audit committee member,

This is the 18th issue of Audit Committee Update and our main focus this time is on self-assessment and effectiveness.

For audit committees in the public services making the most of the available resources, supporting good governance and ensuring accountability are core areas of concern on the audit committee agenda. It makes sense therefore that the same standards are applied to the operation of the committee itself. This issue aims to support that process with some practical suggestions about undertaking a self-assessment and reviewing your own effectiveness.

The remainder of this issue focuses on keeping you up to date with new developments. As well as our regular briefing covering recent reports and guidance we also feature a more detailed briefing on the recent decisions about the timetable for the appointment of external auditors.

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

Best wishes

Diana Melville

CIPFA Better Governance Forum

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Receive our Briefings Directly

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

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) 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.

Issue	Principal Content	Link
Issues from 2010		
1	Reviewing the Audit Plan – Please note that Issue 13 provides an updated review of this topic.	Issue 1
2	Reviewing the Annual Governance Statement – Issue 10 includes an update on this topic.	Issue 2
3	Countering Fraud – Please note that Issue 15 provides an updated review of this topic.	Issue 3
Issues from 2011		
4	Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	Issue 4
5	Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA’s Survey of Audit Committees in Local Government	Issue 5
6	Partnerships from the Audit Committee Perspective	Issue 6
Issues from 2012		
7	Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
8	Commissioning, Procurement and Contracting Risks	Issue 8
9	Reviewing Assurance over Value for Money	Issue 9
Issues from 2013		
10	Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
11	Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA’s Guidance on Audit Committees	Issue 11
12	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		
13	Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
14	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	Issue 14
15	CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, the Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments	Issue 15
Issues from 2015		
16	What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
17	The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17

Workshops and Training for Audit Committee Members in 2015/16 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.

[23 November 2015, London](#)

16 March 2016, Birmingham

13 September 2016, Leeds

20 September 2016, London

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. In addition it will feature the revised governance framework, internal audit developments and counter fraud.

[3 December 2015, York](#)

[9 December 2015, Birmingham](#)

[20 January 2016, London](#)

[27 January 2016, Manchester](#)

Developments in police audit committees

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.

21 September 2016, London

28 September 2016, York

Developing the knowledge and skills of the audit committee

14 September 2016, Leeds

21 September 2016, London

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 chris.o'neill@cipfa.org or email diana.melville@cipfa.org or visit the [CIPFA website](http://www.cipfa.org) where we have a brochure to download outlining the support we have available for audit committees.

Self-assessment and Improving Effectiveness

Do you know if you are doing a good job as an audit committee? And does it matter? Hopefully these are questions that audit committee members can answer positively. It isn't always obvious how an audit committee should be judged. It is easy to tick off 'compliance' points such as having an approved terms of reference and it is easy to count the number of meetings. But the real value of an audit committee comes from the quality of discussion, the questions asked, the recommendations for improvement made and the support provided to audit, financial management, risk management and governance. Evaluating these areas is harder to do, but worthwhile.

Reflecting back on how you've done things and what could be improved is a valuable learning activity for everyone, but I think it is of particular merit for the audit committee as part of its role in supporting good governance. It also helps the committee to demonstrate its openness and improve its accountability by feeding back the results of a review to stakeholders.

A suggested approach for self-assessment

There are four broad areas that should be considered:

- whether the committee is meeting recommended practice for committees in its sector
- whether the committee is addressing its areas of responsibility adequately
- whether the members have acquired the necessary knowledge and skills to be effective
- whether the committee is adding value to the organisation.

The approach you take to addressing these questions can obviously vary, from a detailed checklist to a more qualitative approach. If a checklist is used care should be taken to ensure that it gives adequate coverage of all the areas above and doesn't only look at aspects that can be easily checked off.

Meeting recommended practice

Links to commonly used self-assessment templates are provided at the end of this article but an internet search will provide other examples. If you use a checklist with detailed questions about the make-up of the committee, the number of meetings held etc, it is important to ensure that the questions are appropriate for the recommended practice in your sector. For example, Welsh local authorities must comply with the Local Government (Wales) Measure 2011 and ensure that their audit committees include at least one lay member. For English, Scottish and Northern Irish committees there is no such requirement, although some do opt to do this. The audit committee of a clinical commissioning group must include two lay members and a police audit committee must be made up of all independent members. So it is important to ensure questions are relevant.

Addressing your areas of responsibility

If there are recommended terms of reference for audit committees in your sector then that provides the basis for a review of performance. Are your committee's terms of reference up to date and in accordance with that recommended? If they are not, think about the reasons for that and consider the following questions:

- Are there gaps in coverage?
- Does another committee perform roles which might better lie with the audit committee?

- Is the committee taking on additional responsibilities beyond those recommended? If so does this result in a conflict of interest or crowd out audit committee core business?

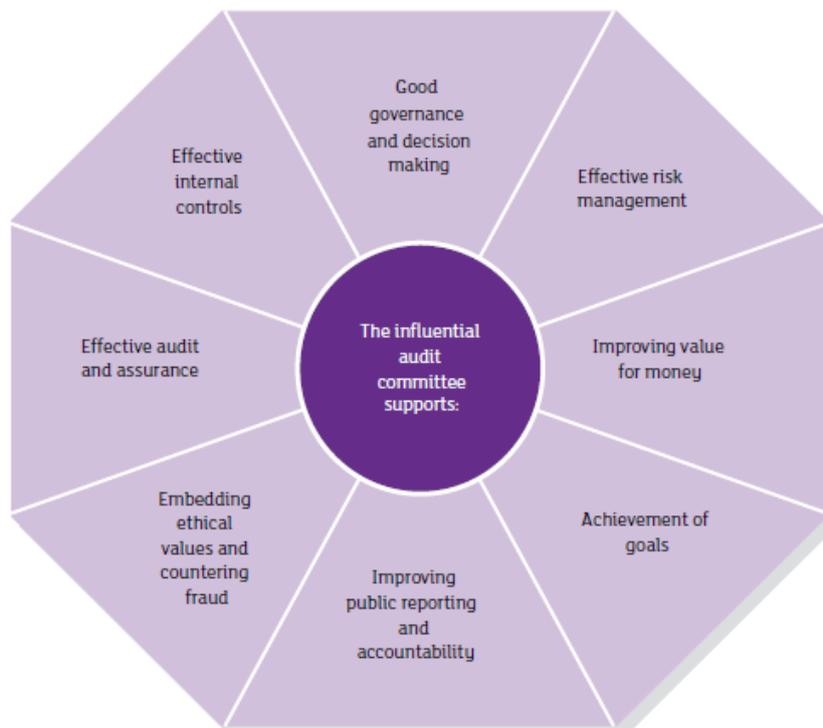
Look at how the business of the committee aligns to the terms of reference too. Is the balance right or do some areas of responsibility consistently fall down to the bottom of the agenda?

Acquiring the right knowledge and skills

The make-up of the committee and having committee members with relevant knowledge and skills is an important contribution to the effectiveness of that committee. The audit committee doesn't need to be made up solely of qualified accountants, auditors and risk managers but usually they are welcomed onto a committee! Ensuring a proportionate level of knowledge and skills is a reasonable aim for all committees. As part of its guidance to local authority and police audit committees CIPFA put together a knowledge and skills framework of the core areas that audit committee members should acquire. Putting those knowledge and skills into practice is also important. CIPFA is also planning further work to support members in this area.

Adding value

The final area to consider is the impact that the committee is having in practice and the added value it brings. The simplest way to do this is to reflect back on previous meetings and recommendations and identify the actions and changes that resulted from the work of the committee. Hopefully you will be able to identify a range of things where the committee has helped to improve internal control, risk management or governance. Sometimes the beneficial impact of the committee can be felt one step removed. For example where the audit committee shows strong support for its internal auditors that can help the internal auditors to be more effective and have greater impact. The diagram below is from the CIPFA publication and shows how audit committees can support improvement across a range of organisational objectives.



Source: *Audit Committees, Practical Guidance for Local Authorities and Police (CIPFA, 2013)*

Undertaking the assessment

So who is best placed to carry out an assessment of the audit committee? An assessment led by audit committee members is best to ensure ownership of the outcome and recommendations, but I would also recommend that an assessment incorporates input from those who interact with the committee on a regular basis such as the head of internal audit, head of finance and external auditor. This should help make the assessment as rounded as possible. However where the committee is struggling an external facilitator may be able to cut through to the core issues and make recommendations for improvement.

Acting on the results of the assessment

Once the assessment is completed, agree an action plan for an appropriate period of time and build reviews of the plan into the audit committee agendas. Where significant changes are needed then wider consultation and agreement may be required to gain support or funding for proposed changes.

If your committee publishes an annual report then I would encourage you to include within it a summary of your assessment process and improvement plans for the year. This will help stakeholders to recognise that the committee is aiming to do its best to fulfil its responsibilities.

References and resources

[Audit Committees, Practical Guidance for Local Authorities and Police \(CIPFA, 2013\)](#)

The publication includes a short (20 questions) good practice self-assessment based on the guidance. It also includes a suggested approach for assessing effectiveness and the knowledge and skills framework.

[Audit Committee Self-assessment Checklist \(National Audit Office, 2012\)](#)

The NAO checklist is based on the Treasury's Audit Committee Handbook (2007) and is aimed at central government audit committees. It includes 89 questions, some of which are highlighted as of particular importance.

[Scottish Government Audit Committee Handbook \(2008\)](#)

The guidance is for members of audit committees in organisations to which the Scottish Public Finance Manual is directly applicable. It includes a self-assessment checklist.

[NHS Audit Committee Handbook \(2014\)](#)

The handbook for NHS audit committees also includes checklists on process issues and effectiveness.

Diana Melville

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CIPFA Better Governance Forum

Appointment and Procurement of External Auditors

For local authorities, police, fire authorities, clinical commissioning groups and health trusts that currently have external auditors appointed for them by the Audit Commission, the provisions of the [Local Audit and Accountability Act 2014](#) will soon be coming into force. The Audit Commission closed on 31 March 2015 but the current external audit contracts continue to be managed by Public Sector Audit Appointments Ltd. This is a company established by the Local Government Association and staff previously employed by the Audit Commission transferred here to continue their roles. The objective of the Act is to put in place new arrangements for the appointment of auditors, with local bodies having the opportunity to appoint their own.

Decisions taken

The Department of Health has announced that health bodies will adopt the provisions of the Act with effect from the 2017/18 financial year. This means that auditors will need to be appointed by the end of December 2016 as the Act requires appointments to be in place three months before the start of the financial year.

The Department for Communities and Local Government (DCLG) has decided that existing audit contracts for principal authorities (for instance local authorities) can be extended by one year so that new auditors will need to be appointed for 2018/19. This means that the auditor must be appointed by the end of December 2017.

Options for appointment

There are two main options that local bodies have: to undertake a procurement exercise using an 'auditor panel' (either independently or in conjunction with other bodies), or to opt into a sector-led procurement. Regulations have been issued under the Act to give further guidance on the implementation of these. [Issue 16](#) of Audit Committee Update included a list and links to the regulations.

Guidance available

The Department of Health commissioned the Healthcare Financial Management Association (HFMA) to write guidance on auditor panels specifically for health bodies. This guidance can be accessed on the [Department of Health website](#) and is of value for audit committees of health bodies.

The DCLG commissioned CIPFA to write guidance on the appointment of auditor panels. This is currently being finalised with the DCLG and will be available soon. The guidance will be freely available. Training will also be available in 2016 on establishing auditor panels.

Steps to take now

Although decisions do not have to be taken straight away it is important to start the evaluation of options soon. Plenty of time is required to plan a procurement and it is also necessary to think through the governance implications of auditor panels, their make-up and relationship to your existing audit committee.

Also watch out for any announcements about whether a sector led body will be appointed by the secretary of state. This will be crucial for evaluation of this option.

We will include updates on developments in later issues of this briefing and Better Governance Forum events.

Recent Developments You May Need to Know About

Legislation and regulations

Governance Framework for Local Government

Over the summer CIPFA and Solace consulted on a new governance framework for local government, including police, fire and combined authorities. The consultation document can be viewed on the [CIPFA website](#). The consultation responses were very positive about the change and some helpful suggestions were received for improving the supporting principles and guidance to accompany the framework. The consultation responses were considered by the working group in October 2015 and the final framework will be published early in 2016.

To achieve good governance, each local authority should be able to demonstrate that its governance is consistent with the principles contained in the framework. The seven core principles are:

- A. behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. ensuring openness and comprehensive stakeholder engagement
- C. defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. determining the interventions necessary to optimise the achievement of the intended outcomes
- E. developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. managing risks and performance through robust internal control and strong public financial management
- G. implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Cities and Local Government Devolution Bill

The [Cities and Local Government Devolution Bill](#) is currently at the committee stage in the House of Commons. The current version of the bill includes provisions for the devolvement of additional functions to combined authorities and provision for elected mayors. The bill also includes provisions for all combined authorities to appoint their own overview and scrutiny committee and audit committee. The bill sets out functions that the audit committee should cover, including reviewing the risk management, internal control and governance arrangements of the authority. The audit committee should include at least one independent person.

Consultation on police, fire and ambulance collaboration

The DCLG, Home Office and Department of Health have issued a consultation [Enabling Closer Working between the Emergency Services](#). The proposals aim to increase joint working between the services and make savings.

Reports, recommendations and guidance

The NAO's Role in Local Audit

The Local Audit and Accountability Act 2014 introduced a new local audit framework in England. Within the new audit framework the NAO prepares and issues the Code of Audit Practice, which sets out what local auditors are required to do. In [The NAO's Role in Local Audit](#) the NAO sets out what it does, including examples of recent value-for-money work focused on local services and contact details.

Managing the Risk of Procurement Fraud

This [guidance](#) has been developed by the LGA and CIPFA Counter Fraud Centre to help authorities understand the main areas of risk and appropriate mitigations. It includes useful references, 'red flags' and a checklist.

Assessing your counter fraud arrangements

When preparing their annual governance statements local authorities should review the adequacy of their counter fraud arrangements and CIPFA's guidance to local authority and police audit committees is that they should review the assurances underpinning this assessment. Following the publication of the [CIPFA Code of Practice on Managing the Risk of Fraud and Corruption](#) in 2104 there is now an assessment tool available that will enable your organisation to assess itself against the counter fraud code. The tool includes reports and charts which would be of interest to an audit committee. A benchmarking option is also available to allow you to compare your arrangements against your peers. The assessment tool has been provided free to all subscribers of the Better Governance Forum.

A Short Guide to the NAO's Work on Local Authorities

The National Audit Office has published [A Short Guide to the NAO's Work on Local Authorities](#). It is designed to provide a quick and accessible overview of how local government is funded, the pressures local authorities face, staffing, and major recent and future developments.

Managing Provider Failure

In [Principles Paper: Managing Provider Failure](#) the NAO explores the principles public bodies should use to manage provider failure. The report draws on the findings from previous NAO reports that have examined examples of failures. Given the extent of outsourcing and selection of alternative service delivery models the risks around provider failure are important for all parts of the public services.

Monitoring the quality of external audit

Following the closure of the Audit Commission, the body established by the LGA, Public Sector Auditor Appointments Ltd, took on the responsibility for monitoring the current contracts for local audit. The results of their compliance and quality monitoring are published in an [Annual Regulatory Compliance and Quality Report](#). Quarterly reports are also available on each of the firms holding contracts for local audit.

[Issue 14](#) of Audit Committee Update describes the audit committee role in relation to monitoring the external audit they receive.

Local Government Auditor's Report 2015

This report from the [Northern Ireland Audit Office](#) comments on a range of topics arising from audit work in local government bodies during the 2013/14 financial year. The report includes comments on strengthening the role of the audit committee, including recommendations that they should be constituted as a full committee and include independent members to strengthen independence and widen the range of specialist skills.

CIPFA Fraud and Corruption Tracker

Earlier in 2015 CIPFA undertook a survey of levels of fraud and corruption detected across the public sector in the 2014/15 financial year. The results of this survey will be published in the next few weeks and will provide a valuable insight into current levels of detected fraud and corruption.

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