

CIPFA Better Governance Forum

## Audit Committee Update

– helping audit committees to be effective

Issue 22

- Developing an Effective Annual Governance Statement
- Regular Briefing on Current Developments
- Audit committee training

March 2017

## Introduction

Dear Audit Committee Member,

Welcome to Issue 22 of our briefings for audit committee members in public sector bodies.

It has been produced by the CIPFA Better Governance Forum and is free to our subscribing organisations. Its aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role.

This issue takes a fresh look at the annual governance statement in the light of the changes to the governance framework for local government bodies. Producing a statement each year can become a stale process rather than something more valuable, and audit committees can play a very helpful role in supporting their organisation to publish a more meaningful statement.

As always, there are links to new developments and resources of interest for audit committee members.

I hope you will find this issue helpful. Do let me know of any suggestions for future topics or feedback on the briefing.

Best wishes

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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](mailto: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](http://www.cipfa.org/Register).

## Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. The earlier issues are on the archive site. Click on the links below to find what you need.

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Issues from 2010 – subsequent issues have updated the content in these issues.		
Issues from 2011		
4	Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	<a href="#">Issue 4</a>
5	Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA’s Survey of Audit Committees in Local Government	<a href="#">Issue 5</a>
6	Partnerships from the Audit Committee Perspective	<a href="#">Issue 6</a>
Issues from 2012		
7	Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	<a href="#">Issue 7</a>
8	Commissioning, Procurement and Contracting Risks	<a href="#">Issue 8</a>
9	Reviewing Assurance over Value for Money	<a href="#">Issue 9</a>
Issues from 2013		
10	Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements <a href="#">See Issues 21 and 22 for updated content.</a>	<a href="#">Issue 10</a>
11	Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA’s Guidance on Audit Committees	<a href="#">Issue 11</a>
12	Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	<a href="#">Issue 12</a>
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13	Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	<a href="#">Issue 13</a>
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	<a href="#">Issue 14</a>
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	<a href="#">Issue 15</a>

<a href="#">Issues from 2015</a>	
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The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	<a href="#">Issue 17</a>
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	<a href="#">Issue 18</a>
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Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	<a href="#">Issue 19</a>
CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	<a href="#">Issue 20</a>
The Audit Committee and Internal Audit Quality, Briefing on Topical Issues	<a href="#">Issue 21</a>

# Workshops and Training for Audit Committee Members in 2017

## **CIPFA Internal Audit Conference**

CIPFA's annual conference for internal auditors will cover professional developments and sharing of good practice.

- 11 May 2017, Oxford Spire Hotel, Oxford

## **Developments in police audit committees**

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

- 20 September 2017, London
- 21 September 2017, 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.

- December 2017 and January 2018, further details to be confirmed

Other 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 or email [diana.melville@cipfa.org](mailto: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.

# Developing an Effective Annual Governance Statement

CIPFA and Solace introduced a new governance framework, *Developing Good Governance in Local Government: Framework*, in April 2016, with seven new governance principles. By adopting the new Framework local authorities should be ensuring that their governance arrangements in practice are in accordance with the principles. The annual governance statement (AGS) is a mandatory requirement for local government bodies set out in statutory regulations<sup>1</sup>. In essence, it is an accountability statement from each local government body to stakeholders on how well it has delivered on governance over the course of the previous year. The benchmarks that are used to make that statement are the principles in the Framework.

## What does the guidance say?

The guidance for the AGS is included along with the Framework and it builds on the previous requirements<sup>2</sup>. In addition to the organisation acknowledging its responsibility for ensuring governance is effective, the AGS should:

- focus on outcomes and value for money
- evaluate against the local code and principles
- be in an open and readable style
- include an opinion on whether arrangements are fit for purpose
- include identification of significant governance issues and an action plan to address them
- be signed by the chief executive and leading member in a council. The PCC and chief constable should sign theirs.

There are also two new areas introduced for 2016/17. Some authorities already include a section that accounts for actions taken in the year to address the significant governance issues identified in the previous year's AGS. CIPFA felt that this was good practice and so has included it as a requirement for the AGS going forward. In addition, CIPFA has not established any 'set text' for authorities to use in acknowledging their responsibility for the governance framework. Many authorities have tended to use the original text from the 2007 guidance, but CIPFA has not included this in the latest guidance in order to encourage more flexibility.

## Who is the audience?

The AGS is prepared to account to your stakeholders and they are wide and varied. They include:

- local citizens
- local businesses
- partners
- Department for Communities and Local Government (DCLG)
- external auditors, inspectorates and regulators.

In addition, it should also be a statement that is of value internally – to other members of the governing body and to staff.

## What makes a meaningful statement?

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<sup>1</sup> In England the [Accounts and Audit Regulations 2015](#), in Scotland [The Local Authority Accounts \(Scotland\) Regulations 2014](#), in Wales [The Accounts and Audit \(Wales\) Regulations 2014](#), in Northern Ireland [The Local Government \(Accounts and Audit\) Regulations \(Northern Ireland\) 2015](#)

<sup>2</sup> [Delivering Good Governance in Local Government: Framework \(Addendum\)](#) CIPFA 2012

The most important way to make the statement meaningful is to ensure that it is an open and honest reflection of your governance and your current challenges. It has been known for the AGS to contain 'window dressing statements' to gloss over areas of poor performance or to fudge the effectiveness of interventions. Where that is the case, the AGS adds little value and doesn't build confidence in the leadership of the organisation. One of the key aspects of the AGS is the identification of areas for improvement and the associated action plan. Where these are done, well the AGS becomes a meaningful tool for improving governance.

The AGS should also provide a clear evaluation against the principles of good governance and an opinion of whether the arrangements are fit for purpose or not. If the opinion is vague or not included then again the AGS does not send a clear message about accountability.

### **What can be done to make the statement more effective?**

Effectiveness of an AGS will be improved if it more successfully communicates the key messages. There are a number of approaches that some authorities have taken to make their AGS more effective:

- keeping it short and focused – where an organisation has an up-to-date local code that sets out their arrangements, then the AGS can make reference to that rather than repeat the detail
- using diagrams to explain key elements
- using colour or pictures to engage the reader.

Regardless of how well the AGS is written, it will not be effective if it is not regarded as important by those charged with governance and the leadership team.

### **What shouldn't we do?**

There are a number of pitfalls in preparing an AGS. These are some of the common ones:

- not ensuring that a range of perspectives support the AGS
- making it too long and wordy
- including too much description rather than evaluation
- omitting the opinion on whether the arrangements are fit for purpose or not
- not being explicit about the actions that will be taken to address the governance issues identified.

### **How can the audit committee help?**

The audit committee can play a very valuable role in the development of the AGS and in the finished look of the statement. The committee should understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the committee.

The committee can provide a valuable reality check for the draft document as well. Is it well written and clearly presented? Is the action plan adequate and realistic?

The committee can send an important message about the value and importance of the AGS, which will support those providing assurance to support its conclusions. Once the AGS has been approved, the committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for improvement in governance.

### **Other points to note**

For the 2017/18 AGS in England the deadline for approval and publication of the statement will be brought forward to 31 July instead of 30 September as at present. This is a requirement of the [Accounts and Audit Regulations 2015](#). Many authorities are planning to approve their AGS and accounts earlier for the 2016/17 year as a preparation for this. As a

result, committees may find that the AGS is appearing on their agendas earlier than in previous years.

The Better Governance Forum held workshops in February and March 2017 on the AGS and developing local codes. Copies of the presentations are available to download from the [CIPFA website](#).

Diana Melville



# Recent Developments You May Need to Know About

## Legislation, Regulations and Consultations

### **Public Sector Internal Audit Standards**

The responsible internal audit standard setters for the public sector (which includes CIPFA in respect of local authorities) have been consulting on whether the PSIAS should be updated to reflect the changes made to the International Professional Practices Framework on which PSIAS is based. The consultation period ended in January and a decision is expected before the end of March.

Any changes to the PSIAS are expected to be implemented from April 2017 for 2017/18. The changes will need to be adopted by all public sector internal audit teams, supported by their audit committees.

Audit committees should ask for an update on the standards, particularly any that impact on the reporting relationship between internal audit and the audit committee. Audit committees should also be aware that conformance with the standards will be assessed through the external quality assessment, known as an EQA, if one has not yet taken place. An EQA has to be completed for all local authority bodies before April 2018, as they must take place at least once every five years.

### **Emergency services collaboration**

The [Policing and Crime Act 2017](#) includes a duty for all relevant emergency services (defined as police forces, fire and rescue services and the emergency aspects of the ambulance service) in England to consider collaboration with each other in their local area. This could take a range of forms including collaboration across the different services. The audit committees of emergency services bodies should therefore be aware of this duty and local plans. Where collaborative arrangements are proposed, then consideration will need to be given to the governance, risk, control and audit implications.

The Act also provides for a police and crime commissioner to be the fire and rescue authority for the local area. Where this is the case it is likely to have consequences for police audit committees and fire authority audit committees. The details of how the audit committee arrangements might work are being considered as part of ongoing work on the finance and governance implications of the proposals.

### **Audit committees in combined authorities**

Combined authorities are required to have audit committees under the [Cities and Local Government Devolution Act 2016](#), including a requirement to appoint at least one independent member. DCLG has now issued [the Combined Authorities \(Overview and Scrutiny Committees, Access to Information and Audit Committees\) Order 2017](#), concerning the definition of independence of such audit committee members. While the regulations only apply to audit committee members appointed to combined authorities, other authorities considering the appointment of an independent member may want to take them into account.

## Reports, Recommendations and Guidance

### **Financial reporting**

There are changes to the 2016/17 financial statements which are designed to make them easier to understand. One principal change is that the income and expenditure account no longer has to follow a standard format, known as the Service Accounting Code of Practice

(SeRCOP). This means that authorities are free to set out their statements in a way that suits them, for example they can follow the structure of the budget monitoring reports that are used throughout the year to inform members on financial performance. CIPFA has produced a helpful guide, [Understanding Local Authority Financial Statements](#), which explains the key statements and features. It also includes a checklist designed to help the authority improve the presentation.

### **Local audit appointments**

English authorities have until 9 March to inform the nominated sector body, Public Sector Audit Appointments (PSAA), if they wish to join the collective procurement and appointment arrangement. The decision must be made by full council, fire authority or police and crime commissioner as appropriate.

PSAA have published an [updated timetable and procurement strategy](#) plus frequently asked questions. All appointments, whether made independently or through PSAA, must be completed by 31 December 2017.

### **Auditors' work 2015/16: local government and health bodies**

PSAA has published [annual reports](#) reviewing the results of auditors' work in local government and in health bodies in 2015/16. They cover the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers. Half of NHS bodies and 6% of local government bodies received a qualified conclusion on their value for money arrangements.

### **National Audit Office good practice resource**

The National Audit Office (NAO) has published a good practice guide to commissioning, procurement and contract management drawing on their findings from recent value for money studies. [Commercial and Contract Management: Insights and Emerging Best Practice](#) highlights control and performance issues across the commercial lifecycle, providing a useful resource when evaluating local plans and contracts.

### **Financial sustainability of schools**

The NAO has published a report, [Financial Sustainability of Schools](#), that highlights the need for mainstream schools to make £3bn in efficiency savings by 2019/20 and highlights the risk that schools will make savings that impact on educational outcomes. The NAO calls for better oversight from the Education Funding Agency of financial management in schools.

### **The governance challenges posed by indirectly provided, publicly funded services in Wales**

The Wales Audit Office (WAO) has published a [discussion paper](#) exploring the governance issues created by the delivery of public services by a range of organisations that are at arms-length from the public body providing funding. It highlights some of the areas of governance risk and discusses how effective governance can be put in place.

### **Local authority funding of third sector services**

A [report](#) from WAO examines the effectiveness of local authorities' arrangements for funding third sector services. It finds that local authorities are neither making the best use of the third sector nor doing enough to ensure they are securing value for money. Authorities could do more to establish a strategic approach and evaluate the impact of their work.

## Charging for services and generating income by local authorities

The WAO has published a [report](#) examining income generation and the extent to which authorities have adopted a strategic approach. It has concluded that despite raising more money from charging, authorities are not pursuing all options to generate income because of weaknesses in their policies and in how they use data and information to support decision making. The report also includes a helpful checklist to support a review of an authority's approach to income generation.

## Look out for

CIPFA is currently updating its publication [Audit Committees Practical Guidance for Local Authorities and Police](#) (CIPFA 2013). The new edition will reflect the regulatory changes to governance, internal audit and the financial statements. It will also take into account the new external audit arrangements under which local authorities will be working, and the recommendations of the Financial Reporting Council over audit independence and ethical standards.

If you have any comments or suggestions for the improvement of the current edition please email [diana.melville@cipfa.org](mailto:diana.melville@cipfa.org)

It is anticipated that the new publication will be available in the autumn.

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