

Wolverhampton City Council

**OPEN INFORMATION ITEM**

Audit Committee

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Originating Service Group(s)

**DELIVERY**

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Title/Subject Matter

**CIPFA AUDIT COMMITTEE UPDATE - ISSUE 9**

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**SUMMARY**

That the latest CIPFA Audit Committee Update, Issue 9 – helping audit committees to be effective, be received and noted.

## **1. PURPOSE AND BACKGROUND**

- 1.1 CIPFA issue regular briefings for audit committee members in public sector bodies. Their aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role.

## **2. DETAILS**

- 2.1 The latest edition of these briefings covers, amongst other topics reviewing assurance over value for money. A copy of the briefing accompanies this report for Members reference.

## **3. FINANCIAL IMPLICATIONS**

- 3.1 There are no direct financial implications arising from this report. (GE/09112012/D).

## **4. LEGAL IMPLICATIONS**

- 4.1 There are no direct legal implications arising from this report (MW/09112012/X).

## **5. EQUAL OPPORTUNITIES IMPLICATIONS**

- 5.1 There are no direct equal opportunities implications arising from this report

## **6. ENVIRONMENTAL IMPLICATIONS**

- 6.1 There are no direct environmental implications arising from this report.

## **7. SCHEDULE OF BACKGROUND PAPERS**

CIPFA Audit Committee Update – Issue 9 (October 2012)

**CIPFA Better Governance Forum**

# Audit Committee Update

– helping audit committees to be effective

**Issue 9**

**Reviewing assurance over value for money**

**Regular briefing on current issues**

**October 2012**

# Introduction

Dear audit committee member,

This issue of Audit Committee Update focuses on value for money. The term 'value for money' can be easy to say, but achieving it in practice can be a lot harder. It is also an area where audit committee members may find it hard to be clear on their role. Some audit committees have a clearly defined role in their terms of reference but others have not. There is a range of practice out there and audit committee members are encouraged to consider what would be appropriate for their organisation.

As usual we also feature a round-up of legislation, reports and developments that may be of interest to audit committee members.

We have included links to resources and further information on our website. To access these all you need to do is register. Further details on how to do this are at the bottom of the page.

We welcome feedback on these briefings and also any suggestions for future topics. Feel free to contact me and let me know.

Kind regards

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## Receive our briefings directly

This briefing will be sent to all key contacts of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be forwarded 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. This will give you access to governance material, guidance documents and you can receive these briefings directly.

Visit our new website [www.cipfa.org/services/networks/better-governance-forum](http://www.cipfa.org/services/networks/better-governance-forum) or [register](#) today.

## Workshops and training for audit committee members in 2012 and 2013 from CIPFA

### The Influential Audit Committee

This new audit committee workshop will address how the audit committee can improve its influence and impact on good governance. Featuring sessions on assurance planning, effective public reporting, improving accountability and evaluating the provision of audit services, the workshop will offer opportunities for discussion, self-evaluation and networking with other public sector audit committee members.

**Further dates and locations will be available in January 2013.**

### Advanced Audit Committees

Have you cracked the basics? This workshop examines the audit committee role in strategic risk management, value for money, counter fraud and treasury management.

22 November, London

### Essential Skills for Board Members

The role of a board member in a public sector body, featuring sessions on corporate governance, decision making, accountability and evaluating board performance.

23 October London

[www.cipfa.org/Events](http://www.cipfa.org/Events)

### In-house training

We have many years' experience in delivering training in-house for Audit Committees.

A range of options are available including:

- Key roles and responsibilities
- Effective chairing and support for the committee
- Working with internal and external auditors
- Corporate governance
- Strategic risk management
- Value for money
- Counter fraud
- Reviewing the financial statements
- Treasury management
- Assurance arrangements
- Partnership assurance

We can also develop bespoke training to meet your needs.

For more information please contact [Claire.Simmons@cipfa.org](mailto:Claire.Simmons@cipfa.org) or speak to Diana Melville.

# The audit committee role in supporting the achievement of value for money

Making the best use of resources has been a long-standing goal for the public services and is a key component of the stewardship of public money. In the current financial climate it is an imperative. Accountability for value for money is demonstrated through public reports and the audit committee of a public body is well placed to have oversight of the organisation's strengths and weaknesses in this area. The audit committee role is a developing one and there isn't a 'one size fits all' approach. In our survey of audit committees in local government in 2011<sup>1</sup> we found that 48% of authorities' audit committees did include results of value for money reviews on their agendas. This briefing will outline the governance framework for value for money and explores the role of the audit committee in supporting that framework.

## The policy and governance framework in respect of value for money

### *Local Government*

The good governance framework for local government<sup>2</sup> has six principles, each of which is broken down into supporting principles. One of the supporting principles of Principle 1 is: '*ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money*'.

### *Central Government*

HM Treasury set the financial framework for a wide range of government bodies, including academies, in 'Managing Public Money'<sup>3</sup>. This identifies the responsibilities of the Accounting Officer for the use of resources and for accountability through the Annual Governance Statement.

## Translating the framework into delivery

How an organisation will go about maintaining or improving the value for money of its services and operations is the responsibility of the Board / Leadership Team. Many aspects of the financial management and performance framework will contribute to this, for example the medium term financial plan and annual budget, service plans, performance targets and monitoring arrangements. The use of benchmarking data and other statistics can be used to compare performance with similar bodies or monitor changes over time. New ways of assessing value for money may be needed when new forms of service delivery are established, for example devolvement to community groups.

The concept of value for money is made up three elements – economy, efficiency and effectiveness. An organisation's goals for value for money may include aspects of each of these and may vary according to service and also over time. This will be a reflection of the priorities and goals of the organisation. For example financial constraints will be likely to result in a greater focus on 'more for less' or 'same for less', i.e. greater economy and efficiency in the use of resources.

Time is an important factor when considering value for money. For example it may only be possible to assess the effectiveness of a programme or initiative several years on. When a new building opens it may be possible to draw a conclusion about the use of resources in its

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<sup>1</sup> CIPFA Survey on Audit Committees in Local Government 2011, [Commentary report](#)

<sup>2</sup> [Delivering Good Governance in Local Government](#), Framework, CIPFA SOLACE 2007

<sup>3</sup> Managing Public Money, H M Treasury [http://www.hm-treasury.gov.uk/psr\\_mpm\\_index.htm](http://www.hm-treasury.gov.uk/psr_mpm_index.htm)

development, for example was it delivered on time and to budget and to specification? Only when the building has been operational for a period of time can a judgement be made over its effectiveness in achieving the goals set out in the business case.

### **The role of external audit**

In the public services there is a long tradition of the external auditors reviewing and reporting on value for money. This derives from the need for assurance over the application of public money and for public reporting to stakeholders. The stakeholders are the Government, Parliament and the public, as well as the organisation itself.

In local government in England the audit code of practice requires the external auditor to make a value for money conclusion over the arrangements in place to secure value for money. The definition of what will be considered in reaching this conclusion is set out by the Audit Commission. It covers the arrangements for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness.

The draft Local Audit Bill sets out the scope of the audit of local government in England, once the Audit Commission has been abolished. The draft Bill confirms that the scope of the audit will continue to include an assessment of value for money. Going forward the responsibility for drafting the code of audit practice will lie with the National Audit Office and all external auditors in local government will continue to work to this code.

In Scotland all public bodies have a duty to achieve Best Value. Audit Scotland conduct best value reviews on Scottish public bodies on a periodic basis. The review consists of a corporate assessment that includes the use of resources together with a performance assessment.

Performance audits are undertaken by national audit bodies, including the National Audit Office, Audit Scotland, Wales Audit Office and the Northern Ireland Audit Office to fulfil their reporting responsibilities to the respective Parliaments on the use of public money. Whilst the findings and recommendations arising from these reports are primarily a matter for the organisations under review, often the recommendations and 'lessons learned' can benefit a wider range of bodies. Recent examples are the IT projects review by Audit Scotland<sup>4</sup> and a shared services review by the National Audit Office<sup>5</sup>.

### **The internal need for assurance**

Whilst organisations will receive assurance from the work of their external auditors, it should be remembered that the reports are retrospective and will be annual at best. An organisation should have arrangements in place to have assurance on a more frequent basis and to inform the decision making process. Output from performance and financial monitoring arrangements will be key aspects of this process. Major projects and programmes would normally have assurance arrangements in place to monitor budget, milestones and finally the realisation of benefits. Another source of assurance is the risk management process which may identify risks to value for money.

Much of the assurance process will form part of day-to-day management or overall financial control of the organisation, so where does the audit committee role fit in? As a non-executive body the audit committee would not determine value for money objectives or set budget and performance targets. Where it can add value is to have oversight of how effectively the organisation makes arrangements for the achievement of its value for money objectives and highlight areas for improvement.

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<sup>4</sup> [Managing ICT contracts](#): An audit of three public sector programmes, Audit Scotland August 2012

<sup>5</sup> [Efficiency and reform in government corporate functions through shared service centres](#), National Audit Office, March 2012

The audit committee receives its assurances to support the Annual Governance Statement from a range of assurance providers, so in relation to value for money the sources of assurance are likely to be similar as those for other aspects of governance, risk and internal control. These could include internal audit reports.

**Public reporting and accountability**

The audit committee also has a key role to play in ensuring that public reports such as the Annual Governance Statement adequately provide accountability on value for money, in accordance with the good governance framework or Managing Public Money. For local government in England, audit committee members should be aware of the draft addendum recently circulated for consultation by CIPFA. This highlighted that an authority’s review of the effectiveness of its governance arrangements should include arrangements for achieving value for money. A recent report from the Accounts Commission in Scotland ‘Managing performance: are you getting it right?’<sup>6</sup> looks at good practice in performance management. It highlights that councils should report publicly on its performance, including information on achievement of value for money.

**Next steps**

Audit committee members are encouraged to review their terms of reference to consider how they should be covering issues around value for money and whether this is an area where the audit committee could add further value to the organisation. A focus by the audit committee on value for money will enhance the Annual Governance Statement, but perhaps more importantly help the audit committee to highlight any risks to value for money experienced by their organisation.

The following key questions for audit committee members provide a starting point for this review.

**Key questions to ask:**

1. What is the organisation’s strategy for improving value for money? How effective is it in practice?
2. What assurance does the audit committee receive regarding the value for money strategy? Are we receiving assurances from the right people?
3. Are value for money risks identified through the risk management process and are there any value for money risks identified currently?
4. How are issues around economy, efficiency and effectiveness addressed during service planning and setting budgets?
5. What information and assurance does the organisation provide to the public and stakeholders concerning value for money? What is included in our Annual Governance Statement?

**Sources of further information:**

[Value for Money conclusion](#), Audit Commission Code of Audit Practice

[Best Value guidance](#), Audit Scotland

[Best Value Toolkit: Efficiency](#), Audit Scotland (other toolkits are also available)

<sup>6</sup> [Managing performance: are you getting it right?](#) Accounts Commission, October 2012



## Developments you may need to know about:

### **Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note**

Pan public sector internal audit standards were issued for consultation over the summer. The consultation has now closed and the final version will be issued before the end of 2012. The standards have been developed following collaboration between the Relevant Internal Audit Standards setters in the public sector (CIPFA, HM Treasury, Scottish Government, Welsh Government, Department of Health and Department of Finance and Personnel Northern Ireland) and the creation of the Internal Audit Standards Advisory Board to advise on the standards.

The standards will come into effect in April 2013 and will apply to all public sector internal audit teams, whether provided in house, by a partnership or a contracted service.

CIPFA is developing an Application Note to support local government internal auditors making the transition from the CIPFA Code of Practice to PSIAS. This will be published early in 2013.

The next issue of Audit Committee Update will feature an article about the PSIAS and highlight the key aspects audit committee members should be aware of.

[Public Sector Internal Audit Standards](#)

### **Good Governance Guidance Note and revised addendum**

The joint working group developing the update of the Good Governance Guidance Note for English local authorities issued a revised addendum to the Good Governance Framework in August for consultation. The addendum includes an outline of the Annual Governance Statement and highlights key elements of the governance arrangements to be reviewed.

The addendum and the new Guidance Note will be finalised and published by the end of 2012. The addendum will apply to the Annual Governance Statement for 2012/13.

### **Local Government funding**

A useful article summarising the radical changes to local government funding has been written by Alison Scott, Assistant Director at CIPFA. The article explains the impact of the Welfare Reform Act 2012 on council tax support and the proposals for localisation of non domestic rates in the Local Government Finance Bill. The impact of these changes will be that there will be greater risk and greater instability in the forecast of resources. As a result effective planning, modelling and forecasting will be essential.

[Radical change to local government funding](#)

### **Draft Local Audit Bill Consultation**

The draft bill that will close the Audit Commission and create new powers and responsibilities for local authorities to appoint their own external auditors was published in July. A period of consultation was undertaken until the end of August. As yet there has been no formal response from DCLG to the comments submitted.

[CIPFA's response to the consultation](#) has been published on the website and is available to view.

The Better Governance Forum prepared an analysis of the draft Bill, comparing it to the Government's earlier published response to the consultation. This is also available to view on our website. Issue 7 of Audit Committee Update included a briefing on the proposals made in 2011 and the subsequent government response.

The draft Bill also includes proposals to transfer the National Fraud Initiative to central government once the Audit Commission goes. The consultation included three options for managing the process: the National Fraud Authority, Department for Work and Pensions and the Cabinet Office.

### **National Audit Office report on Internal Audit in Central Government**

This report examined the effectiveness of internal audit in central government, including main departments and arms length bodies. The report concluded that:  
*'government does not get value for money from its internal audit service. Its quality is variable, it does not consistently focus on key risks and its senior customers are not sufficiently clear about what they should expect from effective internal audit. To meet this need internal audit must provide a higher level of assurance to senior management and boards across government.'*

The report is of interest to other sectors as well as it sets out expectations of what an effective internal audit service should deliver. [NAO report](#)

### **Developing corporate anti-fraud capability in the public services**

This briefing sets out the rationale for developing or improving a corporate anti-fraud capability in a public service organisation. It sets out the benefits to be gained such as improving resilience and making savings from reduced fraud losses and identifies the key steps to be taken.

Audit committees considering whether their organisation has adequate arrangements to respond to fraud will find this a useful article outlining what is needed.

[Corporate Anti-Fraud Capability](#)

### **National Fraud Initiative reports**

The respective audit bodies across the UK have all published their reports on the outcomes of the National Fraud Initiative (NFI) data matching exercise in 2010/11. In England fraud, errors and overpayments of nearly £229 million were identified by the Audit Commission and a further £47 million was identified in Scotland, Wales and Northern Ireland.

The Audit Commission has produced a [briefing for Council Members](#) that outlines the purpose of the NFI and how it works.

[NFI Report England](#)

[NFI Report Northern Ireland](#)

[NFI Report Scotland](#)

[NFI Report Wales](#)

The 2012/13 NFI exercise is currently underway with the data being collected and submitted for matching. Results will be provided from the end of January 2013.

### **Outcomes of information governance audits by the Information Commissioner**

Results of the voluntary audits conducted by the auditors of the Information Commissioner's Office have recently been published. For the public sector the key conclusion was that there was 'room for improvement'. Aspects singled out as the weakest areas included information security and governance arrangements. There have been a series of high profile fines of public bodies across the UK in the past year, emphasising the financial consequences of poor compliance. [Information Commissioner audit reports](#)

# The audit committee cycle

## Keep up to date with the organisation's risk profile

The audit committee needs to have regular updates on the risk profile of their organisation. This has a number of benefits:

- Knowledge about current risks is needed to inform assurance planning during the year. Does the audit committee need to request additional assurance about a new risk or a risk that was increased?
- Regular reviews of the risk management output will inform the committee about how risk management operates in practice. Are reports up to date? Are the risk mitigation strategies being undertaken? Are those strategies effective?
- Look for consistency across the reports and information received by the committee. For example if an internal audit report has raised concerns about a significant internal control matter, has this been reflected in the appropriate risk register?

Audit Committee Update Issue 4 outlines the role of the audit committee in strategic risk management.

## Audit Committee annual reports

Many audit committees prepare an annual report to demonstrate how they have fulfilled their terms of reference and to account for their performance. Key aspects to consider including are:

- Committee membership
- Summary of activity, including key topics, decisions and recommendations.
- Review of the committee's effectiveness, including any external assessment results.
- Development activity undertaken. For example training, networking with other audit committees or peer reviews.

Annual reports should be publicly available and care should be taken to make them readable and accessible.

We are keen to share good examples of annual reports so please send a copy to [diana.melville@cipfa.org](mailto:diana.melville@cipfa.org) and we will feature it on our website.

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