



Audit Committee

23 September 2013

Report Title CIPFA Audit Committee Update – Issue 11

Classification Public

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Recommendations for noting:

The Committee is asked to note:

1. The contents of the latest CIPFA Audit Committee Update, Issue 11 – helping audit committees to be effective

1.0 Purpose

- 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.

2.0 Background

- 2.1 The latest edition of these briefings covers, amongst other topics the Local Audit and Accountability Bill and the Implications for Audit Committees.

3.0 Progress, options, discussion, etc.

- 3.1 Progress against the requirements of the Local Audit and Accountability Bill, will be brought before the Audit Committee as and when required.

4.0 Financial implications

- 4.1 There are no financial implications arising from this report [GE/27082013/D].

5.0 Legal implications

- 5.1 There are no legal implications arising from this report. (JH/06092013/R)

6.0 Equalities implications

- 6.1 There are no equalities implications arising from this report.

7.0 Environmental implications

- 7.1 There are no environmental implications arising from this report.

8.0 Human resources implications

- 8.1 There are no human resources implications arising from this report.

9.0 Schedule of background papers

- 9.1 CIPFA Audit Committee Update – Issue 11

CIPFA Better Governance Forum

Audit Committee Update

- helping audit committees to be effective

Issue 11

Local Audit and Accountability Bill, the Implications for Audit Committees

Update of CIPFA's Guidance on Audit Committees

Regular Briefing on Current Issues

July 2013

Introduction

Dear Audit Committee Member,

This is the 11th issue of Audit Committee Update. It contains a briefing about the latest position on the Local Audit and Accountability Bill written by Paul Mason, CIPFA Assistant Director. As the Bill goes through Parliament there may be further changes and we will update you in further issues of Audit Committee Update or on our website. The Bill does contain a range of provisions, but we have concentrated on those more directly impacting on the work of the audit committee.

In addition we include our round up of developments to help keep you informed and up to date. The round up includes a number of developments in the fields of governance, risks and counter fraud so I am sure you will find topics of interest and use here.

Best wishes

Diana Melville

CIPFA Better Governance Forum

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.

Issue	Principal Content	Link
1	Reviewing the audit plan	Issue 1
2	Reviewing the annual governance statement	Issue 2
3	Countering Fraud	Issue 3
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
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
10	Public Sector Internal Audit Standards and updates to guidance on Annual Governance Statements	Issue 10

Workshops and Training for Audit Committee Members in 2013 from CIPFA

Advanced Audit Committees

Have you cracked the basics? Then how about your role in relation to value for money, countering fraud and treasury management?

10 September Edinburgh; 20 November London

Essential Skills for Board Members

This course provides board or elected members with the knowledge, skills and confidence to be effective board members.

11 September Cardiff

Governance Annual Summit

15 October London

The annual summit features high profile speakers and addresses the governance challenges facing the public services. The full programme will be confirmed shortly along with booking details but confirmed speakers include:

- Steve Richards, political journalist with The Independent
- Sir Anthony Hooper, Chair of the Whistleblowing Commission
- Lee Glendon, Business Continuity Institute

CIPFA events information and dates available are on the website.

<http://www.cipfa.org/Events>

In house training

In house training tailored to your needs is available. For further details contact Claire Simmons on 0208 6678542 or Claire.Simmons@cipfa.org or visit the [website](#)

Receive our Briefings Directly

This briefing will be sent to all contacts 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. Register now, please click here <https://www.cipfa.org/Login>

What will the Local Audit and Accountability Bill Mean for the Audit Committee?

Introduction

As expected, the Bill that will lead to the abolition of the Audit Commission and that will establish new arrangements for the audit and accountability of local public bodies was included in the Queen's Speech. Unexpectedly, the Bill also amends the legislative framework for council tax referendums and includes provisions regarding local authority publications. As a consequence, 'accountability' has been added to the name of the Bill.

The Local Audit and Accountability Bill was introduced in the House of Lords on 9 May 2013. There has been little change in the substance of the Bill since it was considered by the Ad-Hoc Committee, although the Bill has undergone a significant restructuring, with many of the requirements now found in the Bill's schedules. And a lot of the detail will be filled in by regulations, so watch this space...

The provisions relating to the abolition of the Audit Commission are unlikely to be of great interest to audit committee members. Similarly, the detailed requirements as to who will provide professional scrutiny of local auditors in future is unlikely to be of any great interest to members; it is vital this role is performed, but provided this scrutiny is of an appropriate standard, audit committee members are unlikely to need to worry about the details.

Appointment of auditors

Where the Bill will have a direct impact on the work of audit committees is in the establishment of new audit arrangements for local public bodies. Local public bodies (or 'relevant authorities' as the Bill refers to them) include not only those bodies in the local government sector (for example local authorities, police and crime commissioners, and chief constables) but also includes parts of the NHS (for example, clinical commissioning groups and special trustees for hospitals).

When existing audit contracts come to an end, these local public bodies will be responsible for appointing their own local auditors. The first of these new contracts are expected to start in 2017, so the procurement process will need to take place in 2016.

This appointment must be made taking into account the advice of relevant authority's auditor panel (see below). If the relevant authority does not take the advice of its auditor panel, it will have to explain why. It is clear that auditor panels will have a significant role to play in future. Equally clearly, it is important that the relationship between the auditor panel and the audit committee works well, and that there is a clear understanding of each other's role. Assuming, of course, that the auditor panel and the audit committee are not one and the same, which could happen.

Auditor panels

When the government consulted on the future of local audit, a number of responses (CIPFA's included) suggested that it would be more appropriate to strengthen the current audit committee arrangements than to introduce new auditor panels. However, the Department for Communities and Local Government has not wavered from its intention to introduce new, independent panels, and this requirement is included in the Bill.

For local authorities, the Bill requires the majority (or all) of the auditor panel members – including the Chair – to be independent. "Independent" here means independent from the local authority, as set out in Schedule 4 to the Bill:

- a) *the panel member has not been a member or officer of the authority within the period of 5 years ending with that time,*
- b) *the panel member has not been an officer or employee of an entity connected with the authority within that period, and*
- c) *the panel member is not at that time a relative or close friend of a member or officer of the authority or an officer or employee of an entity connected with the authority.*

There are no equivalent provisions for health service bodies at present, although the Bill gives the secretary of state the power to make regulations regarding the constitution of an auditor panel for a health service body.

Interestingly, the Bill does not have any requirements regarding the skills or experience needed by auditor panel members. Neither does it consider whether it would be appropriate to have as a member someone who has recently retired from one of the potential audit firms. These are issues relevant authorities will need to bear in mind when creating their auditor panels.

The Bill permits existing audit committees to take on the role of an auditor panel, providing the independence criteria are met. The auditor panel could also be a sub-committee of the audit committee, which might address some authorities' concerns over having a majority of a local authority committee being made up of independent members. Other options include sharing an auditor panel with one or more other authorities.

Auditor panels have a duty to advise authorities on the selection and appointment of local auditors, although authorities are not bound to accept that advice. Where they do not follow the advice of their auditor panel, authorities will need to publish their reasons for choosing a different auditor.

Audit committees

Auditor panels also have a duty to advise authorities on the 'maintenance of an independent relationship with the local auditor appointed to audit its accounts.' It is not clear how active a role auditor panels will play in this regard, which cuts across the traditional territory of an audit committee. Where auditor panels meet infrequently, the role of the audit committee with regards to the external auditor may remain unchanged. Where auditor panels meet more frequently, however, there is a risk that the audit committee's role regarding the external auditor will be reduced. This could affect an audit committee's ability to take an overall view of the governance and risk arrangements for an authority.

It is therefore important that, in establishing auditor panels, consideration is given to how they will fit into the overall governance arrangements for the authority. Independent members, possibly shared with other authorities, may be a new experience for some authorities. Early consideration of how the auditor panel will interact with the audit committee – especially where the auditor panel has no members in common with the audit committee – will help the process run smoothly.

The publication of the Bill is the latest step in a long journey, and there may be further changes of direction as the Bill passes through Parliament. To meet these challenges, CIPFA will be providing guidance and advice to assist authorities as they adjust to the new arrangements.

Paul Mason

Assistant Director, Policy and Technical, CIPFA

Update of CIPFA Publication on Audit Committees

In 2005 CIPFA issued its guide *Audit Committees, Practical Guidance for Local Authorities* which has been the authoritative guidance document for audit committees across the local authority sector. Since then audit committees have become more firmly established and there have been a range of changes in professional practice and legislation, including joint audit committees supporting police & crime commissioners and chief constables and the establishment of statutory audit committees in Wales.

CIPFA will be updating the publication to reflect the changes and introducing additional guidance on developing areas of audit committee activity. We hope that the guidance will be practical and useful to both audit committee members and those working with the committee. We would welcome therefore comments and suggestions for the proposed guide. Please tell us about the following:

- What aspects of audit committee operations require further guidance?
- Are there any areas where there is confusion or a lack of clear guidance?
- What would help audit committees to improve?

In addition we would like to feature examples of good practice. If your audit committee has some good practice to share then please contact me.

The updated publication will be available towards the end of 2013.

All comments and suggestions should be sent to Diana.Melville@cipfa.org

Diana Melville

Governance Advisor

CIPFA Better Governance Forum

Developments you may need to know about:

HM Treasury Audit and Risk Assurance Committee Handbook

A new edition of the Treasury's guidance on central government audit committees has been issued. Audit and risk committees in central government are expected to report annually on their work and how they have discharged their responsibilities in accordance with the handbook.

[Audit Committee Handbook](#)

Annual Fraud Indicator

Each year the National Fraud Authority publishes its assessment of fraud across the UK. The latest indicator was published in June and it estimates that the level of fraud loss to the public sector is £20.6bn. This year's indicator includes a breakdown by identified and "hidden" fraud, analysis by different parts of the public sector and analysis across different fraud types. Some of the key figures to note include:

Victim	Total Estimated Fraud Loss
Tax system	£14bn
Central government (including health)	£2.6bn
Local government	£2.1bn
Benefits and tax credits system	£1.9bn

One of the largest areas of fraud in both central and local government is thought to be procurement fraud, estimated at £1.4bn and £876mn respectively.

[Annual Fraud Indicator 2013](#)

Public Accounts Committee Report: Financial Sustainability of Local Authorities

The report follows from the study undertaken by the National Audit Office and the hearings of the committee. It notes that government departments have undertaken insufficient modelling to understand the impact of cuts to government grant to local authorities. It also recognises the risks of service failure resulting from reduced funding while making no change to the level of statutory duties. The report makes a number of recommendations to the Department of Communities and Local Government, including its role and responsibilities in the event of multiple financial failures of local authorities.

[Public Accounts Committee Report](#)

Severance Agreements and Confidentiality Clauses

There has been a lot of coverage about severance agreements in the public sector, especially those that include a "gagging" clause. Most recently the National Audit Office have issued a review of central government arrangements and concluded that:

There is a lack of transparency, consistency and accountability in the use of compromise agreements in the public sector and little is being done to change this.

[National Audit Office report Confidentiality clauses and special severance payments](#)

Police Audit Committees

The Better Governance Forum and the Police Network recently ran some events for newly appointed members of police audit committees. Included in the information provided for delegates attending was an analysis of the governance principles showing where the audit committee was most likely to concentrate. A copy of the document is available to download from the website.

[Implementing the 6 Governance Principles in Practice – Audit Committee Roles](#)

Whistleblowing Commission

A Whistleblowing Commission has been established by the charity Public Concern At Work to examine the existing arrangements for workplace whistleblowing and make recommendations for change. The Commission is chaired by former Court of Appeal judge Sir Anthony Hooper who will be speaking on the work of the Commission at our Governance Annual Summit in October.

[Whistleblowing Commission](#)

Consultation on Public Sector Governance

The International Federation of Accountants and CIPFA have issued a Consultation on an International Framework on Governance in the Public Sector. It is designed as a reference document for those who develop and set national governance codes for the public sector when updating and reviewing their own codes. CIPFA will consider the final framework in its own review of the Good Governance Framework.

[Governance consultation](#)

New Financial Handbook for Academies

The Education Funding Agency has issued a new financial handbook to support academies in their governance and financial management. It includes a requirement for academies to have a dedicated audit committee if their income exceeds £10mn.

[Financial handbook](#)

The Audit Committee Cycle

Reviewing the Annual Governance Statement

Audit committees may have already considered the draft AGS and supporting evidence. The final version must be published alongside the financial statements by 30 September. [Issue 10 of Audit Committee Update](#) included details of the latest guidance from CIPFA on the AGS.

The Better Governance Forum has a webinar and presentation on its website with a note about the key changes to remember for the 2012/13 AGS for local government. This can be accessed through the following link:

[Annual Governance Statements webinar](#)

One point that is often overlooked is that the AGS should be current at the point that it is published. If publication is in September then the audit committee should be satisfied that there are no material developments or changes since they first reviewed the statement or that the statement has been brought up to date. The statement should be signed shortly before publication.

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