

Audit Committee Update

Helping audit committees to be effective

Issue 36

August 2022

New CIPFA Guidance on Audit Committees in Local Authorities and Police

Internal Audit: Untapped Potential

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Introduction

Dear audit committee member,

Welcome to the latest issue of Audit Committee Update from the [CIPFA Better Governance Forum](#). This resource aims to support audit committee members in their role by helping to keep them up to date.

In this issue, we concentrate on the new guidance for audit committees from CIPFA. All committees in local authorities and police are encouraged to review the new guidance and ensure their audit committee is following it.

There is also a summary of key points from CIPFA's research report on internal audit in the public services and links to resources to help audit committees get the best from their internal audit arrangements.

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Audit Committee Update is covered by CIPFA's copyright and so should not be published on the internet without CIPFA's permission.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

A link to this briefing will be included in the newsletter for subscribers to the CIPFA Better Governance Forum. It can then be shared with that organisation's 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 please visit: www.cipfa.org/Register.

CIPFA position statement on audit committees in local authorities and police 2022

CIPFA issued a new [position statement](#) in April 2022. It replaces the 2018 edition and takes account of changes in legislation and other developments that affect the role of the committee.

The statement has the support of the Department of Levelling Up, Housing and Communities and the Home Office.

Applicability

The position statement applies to all local government bodies in the UK, including councils, fire authorities and police.

The statement is CIPFA's recommended practice to the sector. It has the support of government departments and sector stakeholders but is not a statutory requirement.

Contents

It covers the purpose of the committee and sets out good practices that the committee should follow. These include:

- Establishing an independent and effective model
- Ensuring that the committee covers the core functions:
 - Supporting the maintenance of governance, risk, and control arrangements
 - Financial and governance reporting
 - Appropriate and effective arrangements for audit and assurance
- Establishing a committee with the necessary expertise and understanding
- Engaging with those charged with governance, senior officers, auditors, and other committees
- Reporting annually
- Evaluation of its own impact and identifying areas for improvement

Key changes from previous guidance

The statement continues many points from the 2018 edition, but overall it places a stronger emphasis on factors that will help the committee be more effective.

One key area is to ensure that the committee is independent of executive decision making and separate from other committees. This means that ideally the committee should remain advisory rather than having delegated powers. Police audit committees are required to be advisory only, by the Home Office.

Some audit committees must follow legislation or guidance on their structure, in particular the number of co-opted independent members (or lay members). Where there is no direction, CIPFA's recommendation is that each audit committee should include at least two lay members to provide appropriate technical expertise. As well as expertise, lay members can also provide some continuity when elected committee members rotate onto other committees, or there are changes following elections.

The statement includes a stronger emphasis on financial reporting and external audit, building on themes considered under the Redmond Review. Audit committee members in

England will be acutely aware of difficulties with timely completion of the audit and committees will need to do what they can to support finance teams and auditors to resolve the issues.

Improving understanding of the committee

To have impact as an advisory committee can be challenging, but it is important that the voice of the audit committee is heard. If the committee has concerns about issues raised by internal or external audit, or can see good governance becoming threatened, then it needs to escalate those concerns to the leadership team and those charged with governance. It is vital that all those in leadership and governance roles understand the role and purpose of the committee, and how its work benefits the authority.

CIPFA has produced some 'frequently asked questions' to support the briefing of councillors, Police and Crime Commissioners, and all those interacting with the committee, or to whom the committee may make recommendations. There is one version for authorities and another for police. CIPFA hopes that building the committee's profile will support the committee in its work:

[The audit committee and organisational effectiveness in local authorities](#)

[The audit committee and organisational effectiveness in policing](#)

For authorities, where some of the committee membership will be drawn from elected members, greater understanding will encourage interest in joining the committee.

Annual reports

CIPFA has recommended that committees should produce an annual report, and many already do. This is now included as a requirement in the statement. The report should disclose how the committee has complied with CIPFA's statement and discharged its responsibilities as set out in the terms of reference. CIPFA also recommends that an assessment of the committee's performance should be included, and where there are plans to make changes, it can highlight these.

Assessing the committee

CIPFA is updating its guidance publication, [Audit Committees, Practical Guidance for Local Authorities and Police](#) to support the 2022 position statement. The update, available in September, includes amendments to the improvement tools included in the 2018 edition. These will support the committee in its assessment of whether it is following the recommended practice and consider how it is having an impact. As the committee will report annually, it should undertake or review its own assessment each year.

Planning training and support for the committee

For those new to the audit committee, understanding its role and areas of responsibility can be daunting. Experienced audit committee members joining as lay members may be new to the local government or policing context. It is therefore vital that proper support and training is made available to the committee. There are a range of options available, including briefings from officers, commissioning training for in-house delivery, or attending training or webinars. There are also opportunities for chairs of authority committees in England and Wales to attend regional meetings supported by the LGA and Welsh LGA.

A committee can also consider obtaining feedback or an external review. Feedback from those who interact with the committee, such as the external auditors, head of internal audit or CFO, can be helpful in identifying areas of training need. The committee chair might like to take the lead on these discussions. Some suggested questions are below:

	Suggested feedback questions
1	Do you think the committee operates at the right level, focusing on arrangements, rather than operational details?
2	Are there areas of the committee's terms of reference where the committee should focus more?
3	When you are asked questions by the committee are they: <ul style="list-style-type: none"> • Relevant for the topic in hand? • Sufficiently challenging? • Non-political in nature?
4	Does the committee act when you might expect them to? For example, making recommendations or escalating areas of concern to appropriate officers or those charged with governance?
5	Do all members of the committee engage with audit committee business?
6	Do committee member demonstrate sufficient knowledge and understanding of the areas on the agenda?
7	Are there any changes you would like to see the committee make?

Getting the most from Internal Audit

Internal audit is a vital source of assurance to the audit committee, so it is essential that your internal audit arrangements are fit for purpose and there is a good understanding of how the committee can work best with them.

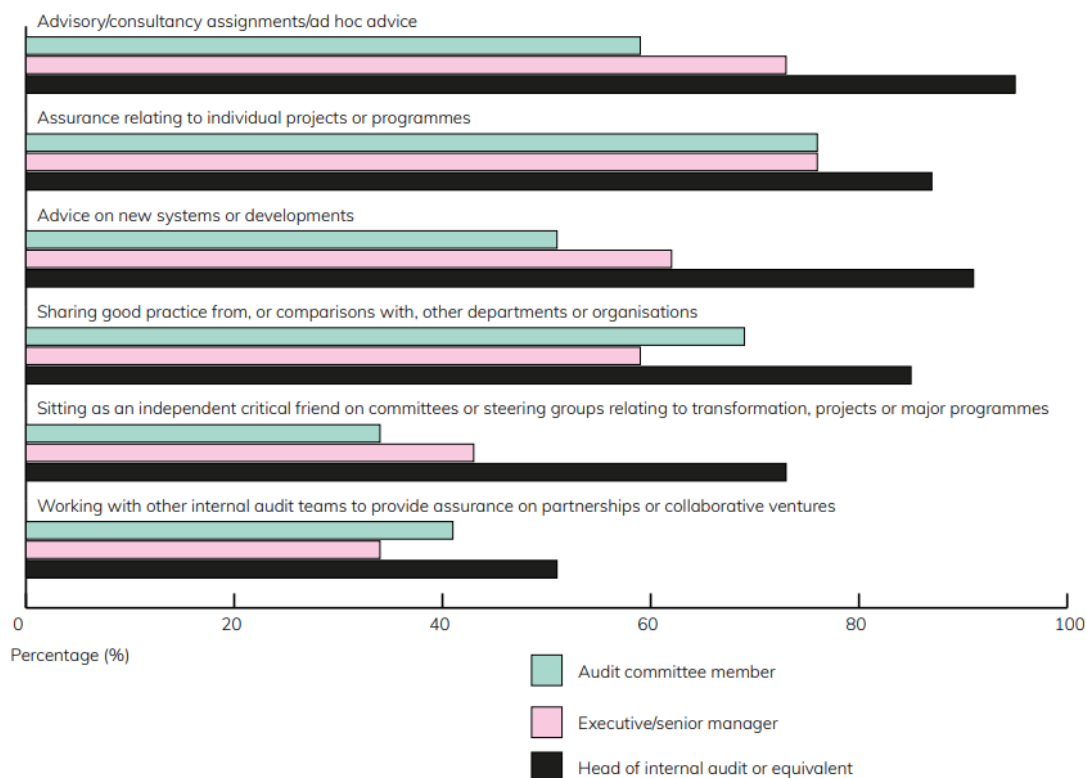
In May, CIPFA published [Internal Audit: Untapped Potential](#). This is a research report of internal audit across the public services. It featured a major survey capturing the views of over 800 internal auditors, management clients and audit committee members. CIPFA also conducted five focus groups and spoke to a range of stakeholders. The report highlights how internal audit is having an impact and supporting their organisations. It also identifies opportunities to do more and for audit committees and management to better support internal audit.

Insights for the audit committee

The report identified several aspects that audit committees should reflect on. The report encourages all parties to reflect on and discuss their internal audit arrangements to ensure there is support for both current and future needs.

Understanding the value of audit

The report identified that audit committee members didn't always have a full understanding of the range of internal audit work. The chart below shows the results from the survey, showing that audit committee members had lower awareness of current internal audit services than those identified by the head of internal audit.



The view of what internal audit currently delivers, split by role.

CIPFA recommends that heads of internal audit should improve their communication with the committee and explain the nature of internal audit consultancy or advisory work. Early involvement of internal audit in projects, new developments and collaborations can help ensure that appropriate governance, risk management and controls are put in place, helping to avoid problems later. Where internal audit does little advisory work, then the committee should explore this opportunity with management and auditors.

The organisation's assurance, governance, and risk arrangements

The survey identified a lack of clarity around assurance frameworks and the robustness of risk management. Heads of audit told us that where these arrangements are weak, then internal audit can end up filling the gaps. Improving the management of risk and ensuring that the committee and management have a good understanding of assurance, would be good objectives for an audit committee to consider.

Ensuring that the audit committee itself is operating effectively and providing appropriate oversight of internal audit is also important.

Longer-term strategy for internal audit

Many audit teams have had resourcing pressures in the last decade, and organisations currently face new financial pressures. At the same time, many teams are struggling to recruit and retain internal auditors, particularly experienced professional staff. Whether internal audit is delivered in-house or through a shared or outsourced arrangement, the team will need sufficient resources to conform with the Public Sector Internal Audit Standards and deliver the assurances that the organisation needs. To recruit and retain skilled staff the employer will need to offer satisfying career opportunities.

This is a difficult challenge in many organisations and the audit committee should encourage a strategic approach to audit resource planning and be aware of the risks.

Exploring opportunities

Internal auditors, clients and audit committee members identified future priorities for audit work and the top areas were:

- Cybersecurity
- Digitisation and the greater use of data within the organisation
- Environmental sustainability/climate change
- Financial viability
- Culture and ethics
- Supporting improved risk maturity

When discussing audit plans, audit committees may wish to consider the assurance they could receive from internal audit on these areas. For some topics listed, auditors may need specialist knowledge, and so training, and development need to be factored into resourcing plans.

Next steps

The report is detailed, but there is a [summary report](#) and a handy list of [ten questions](#) for audit committees to discuss with their auditors. Please engage with these resources and explore the areas that will help your organisation to get the best out of your internal audit arrangements.

Webinars and training for audit committee members from CIPFA in 2022

Understanding your council's financial reporting requirements
Webinar to support the review of the financial statements

- [31 August](#)

Introduction to the knowledge and skills of the audit committee
Dates for the webinar are:

- [13 and 14 September \(mornings only\)](#)

Introduction to the knowledge and skills of the police audit committee

- [14 and 15 September \(mornings only\)](#)

Update for police audit committee members

This webinar is suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables. It is run in conjunction with CIPFA's Police and Fire Network. Provisional date: 20 October 2022

Update for local authority audit committee members

This webinar will provide an update on current topics relevant for the work of audit committees. Provisional date: December 2022/January 2023.

Full programme details and booking information for webinars in 2022 will be announced later in the year and will be available on the [CIPFA website](#).

In-house training, facilitation, and evaluation of your audit committee

In-house training, webinars and guidance tailored to your needs are 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.

We can also undertake an effectiveness review of the committee, providing feedback on areas the committee can improve on and supporting the development of an action plan.


For further information, email diana.melville@cipfa.org or visit the [CIPFA website](#) for further details on the support we have available for audit committees.

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.

Principal content	Link
Please note the content from some earlier issues has been replaced by more recent issues and so they are not listed below.	
Issues from 2012	
Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
Commissioning, Procurement and Contracting Risks	Issue 8
Reviewing Assurance over Value for Money	Issue 9
Issues from 2013	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA's Guidance on Audit Committees	Issue 11
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act	Issue 13
Issues from 2015	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
The Audit Committee Role in Reviewing the Financial Statements	Issue 17
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors	Issue 19
CIPFA Survey on Audit Committees 2016	Issue 20
The Audit Committee and Internal Audit Quality	Issue 21
Issues from 2017	
Developing an Effective Annual Governance Statement	Issue 22
2017 Edition of the Public Sector Internal Audit Standards, Risks and Opportunities from Brexit	Issue 23

Issues from 2018	
The Audit Committee Role in Risk Management	Issue 24
Developing an Effective Annual Governance Statement	Issue 25
CIPFA Position Statement on Audit Committees in Local Authorities and Police 2018	Issue 26
Issues from 2019	
Focus on Local Audit, National Audit Office Report: Local Authority Governance	Issue 27
The Audit Committee Role in Counter Fraud	Issue 28
CIPFA Statement on the Role of the Head of Internal Audit External Audit Arrangements for English Local Government Bodies	Issue 29
Issues from 2020	
CIPFA Financial Management Code, Responding to the Redmond Review: Results of CIPFA's Survey on Audit Committees	Issue 30
Compendium Edition: Reviewing the Audit Plan, Self-assessment and Improving Effectiveness, Developing an Effective Annual Governance Statement and Focus on Local Audit	Issue 31
COVID-19 Pandemic – Key Issues for the Audit Committee Regular Briefing on New Developments	Issue 32
The head of Internal audit annual opinion for 2020/21 Update on the Redmond Review	Issue 33
Issues from 2021	
The Annual Governance Statement for 2020/21, Internal audit and external audit working together	Issue 34
Supporting improvements to risk management arrangements, Defining the relationship between the audit committee and the scrutiny function, New consultation on local audit and audit committee arrangements	Issue 35



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