

Audit Committee Update

Helping audit committees to be effective

Issue 38
July 2023

Financial risk and the audit committee

The audit committee role in internal audit standards

Table of contents

Introduction	3
Sharing this document	3
Receive our briefings directly	3
Financial risk and the audit committee	4
Why and how do things go wrong?	4
How does the audit committee fit in?.....	4
Getting the audit committee role right.....	5
What should an audit committee member do if they have concerns?	6
Specific areas for the attention of the audit committee	6
Summary	7
Learning point	7
The audit committee role in internal audit standards	8
Accessing training and networking opportunities.....	9
Webinars and training for audit committee members from CIPFA in 2023.....	9
In-house training, facilitation and evaluation of your audit committee	10
Recent developments and resources	11
Reports, recommendations and guidance.....	11
Previous issues of Audit Committee Update	13

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 consider how the committee can ensure their organisation's governance and financial management arrangements are robust. With recent examples of failure and ongoing concerns about financial resilience, this is a key area of concern for audit committees. It is also an area where an effective audit committee can make a significant difference.

There is also a summary of resources and links to help audit committee members in their work.

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Audit Committee Update is covered by CIPFA's copyright and so should not be published on the internet without CIPFA's permission.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 CIPFA Better Governance Forum subscribers' newsletter. 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 cipfa.org/register.

Financial risk and the audit committee

The latest troubling news about Woking Borough Council follows other councils that have got into financial and governance difficulties: Slough, Thurrock and Croydon. Section 114 reports, auditor reports in the public interest and best value inspection reports provide some salutary lessons for councils, especially those in governance and leadership roles. There are resources available to identify the common failings and learning points, and this article will feature some of these and provide links to additional information.

How should audit committees respond? If you are on an audit committee, would you bear any responsibility if your council got itself into a financial mess? In this article, I'll look at such financial risks from the perspective of the audit committee.

Why and how do things go wrong?

Some of the problems we have seen are ambitious commercial investments that have gone beyond the capacity and capability of the council to manage the risks. The strategy itself may have been flawed, or it may be its execution, or both. There may be other factors that contributed to the strategy – for example, poor working relationships between members and officers resulting in poor communication and a lack of trust, or the development of groupthink in a close leadership group. The context of increasing financial constraints and pressures to be innovative and more commercial should also be recognised, though they are not of course an excuse.

There are some useful summary reports that try to pull out the learning. The detailed reports on individual authorities make salutary reading, but these summaries are strongly recommended to everyone in a local authority:

- [Learning lessons: what Section 114 can teach us](#) (CIPFA, 2022)
- [Lessons from recent public interest reports](#) (Grant Thornton, 2022)

I would also recommend another resource that teases out the positive and negative behaviours affecting governance – the [risk and resilience framework](#) from the Centre for Governance and Scrutiny. For example, are there strong relationships between the principal statutory officers and the political leadership, or are posts filled with a succession of interim staff and finance and legal matters treated as a box-ticking exercise?

How does the audit committee fit in?

The audit committee is a defence mechanism, helping to keep an organisation resilient and sustainable. CIPFA's [Position Statement on Audit Committees](#) emphasises the importance of the committee for good governance. An effective audit committee gives greater confidence to all those charged with governance that there are adequate arrangements for governance, risk management and internal control. The Position Statement was updated in 2022 and is supported by the Department of Levelling Up Housing and Communities (DLUHC) and the Home Office.

When an authority has got into difficulties, there have been criticisms of the audit committee. In addition, concerns were expressed in the Redmond Review and by the National Audit Office that audit committees were not always effective at escalating concerns flagged by auditors. Getting audit committee arrangements right is important, regardless of whether an authority is in crisis.

Getting the audit committee role right

Avoiding crossing the line between scrutiny and audit

CIPFA has worked with several councils where audit committee members have been concerned about the authority's financial strategy and level of risk. It is good that audit committee members are engaged and aware, but there is a danger that challenging the council's financial or commercial strategy strays beyond the audit committee role and instead enters the territory of scrutiny. Ultimately, it is not the role of the audit committee to examine and challenge the policies of the council. Instead the committee should focus on the adequacy and effectiveness of the council's arrangements. That doesn't mean the audit committee ignores concerns; it just means that it approaches them in the right way.

What do we mean by 'arrangements' and how does the work of the audit committee help? Let's take a few examples of what an audit committee can do.

Review the council's governance

Seeking assurance that the council has good governance arrangements in place isn't just needed to support the annual governance statement. It is fundamental to securing robust decision making and financial competence. Councils that have got into difficulties have suffered from poor governance, but either the weaknesses were not recognised, or they were ignored. This is one reason CIPFA issued its [advisory note from the Practice Oversight Panel](#) to encourage authorities to take the review of their governance seriously. Can the audit committee feel confident that the authority has robust risk management, for example? How effective are scrutiny committees? Are the statutory officers (the CFO, monitoring officer and head of paid service) able to exercise their responsibilities effectively? Paying attention to governance can help avoid excessive financial risk and ensure that it has the mechanisms in place to respond to risk.

Understand assurance and internal control

Assurance is critical in supporting the audit committee, but it is also critical for the leadership team. It tells them whether they can have confidence in the authority's internal controls. I'm sure we are all familiar with situations where there is the semblance of control – for example, the existence of policies and procedures – but where practice is different. It doesn't matter whether the control relates to procurement, budget, information security or codes of conduct; if the policy or procedure isn't effective in practice, then there is risk. Sometimes controls and assurance can be actively undermined in the interests of 'reducing bureaucracy' or 'cutting red tape.' Certainly controls can be improved and made more efficient, or changes made to manage risk in different ways – and no one wants control just for the sake of it. The audit committee can play a vital role in checking the authority is getting that balance right and has access to assurance on critical areas.

What pitfalls might the audit committee fall into by challenging?

An audit committee is apolitical and advisory. Its ability to influence comes from that shared viewpoint rather than taking sides. If there are concerns about council policy, constructive challenge could risk becoming a political debate on the best policy approach. That is really beyond the remit of the committee and is best addressed through the scrutiny process or in full council. Where a committee becomes or appears to be too political, then it undermines the members' ability to work together and develop a consensus view on the adequacy of governance, risk and control. This undermines the effectiveness of the committee. For example, an audit committee could raise legitimate concerns about the effectiveness of the authority's risk management arrangements, but if the audit committee is seen as political, those concerns are not listened to but dismissed as political game-playing. Another problem

could be that it undermines the working relationship with officers – for example, asking for information to be provided that isn't within the remit of the committee – though this should not be a reason to avoid transparency.

What should an audit committee member do if they have concerns?

All elected representatives have a responsibility. Full council is the body 'charged with governance' in a local authority. There may be questions that are appropriate to raise at the audit committee – for example, how does internal audit plan to provide assurance over critical risks? Are the risks identified and being managed effectively? It is important that the committee fulfils its responsibilities. For example, the best value inspection report on Thurrock Council noted that the council's investment strategy was "never a focus for internal audit" and "never considered as a risk by the standards and audit committee." "The level of risk was never properly identified or made explicit within strategic risk reports", so it is important that those arrangements are in place.

The CIPFA Position Statement on Audit Committees recommends that the audit committee should be able to meet the external auditor or head of internal audit privately. This provides the opportunity to ask questions or raise issues, though it shouldn't replace transparent and democratic scrutiny.

In addition, the committee can think about wider governance arrangements and escalate concerns to a scrutiny committee, a project board, the cabinet or the leadership team, or full council. Elected members also have opportunities to speak to officers and leading members outside of formal meetings if they want further information or have concerns.

What if the committee does raise its concerns constructively but it doesn't make an impact?

Depending on the nature of the concern, the statutory officers or political leadership can be invited to attend the committee to discuss the matter. The matter can be formally escalated through a recommendation and can be highlighted in the committee's annual report to full council. Any of these actions should be taken seriously by the leadership team. It also formally draws the attention of concerns to the authority's external auditor.

Where the committee isn't listened to, that is a significant governance concern and one that should be addressed.

Specific areas for the attention of the audit committee

The committee should consider the governance arrangements for key commercial and investment activities and whether they are operating as intended. For example:

- the authority's shareholder board of a council trading company
- the committee that exercises the role of treasury management scrutiny in accordance with CIPFA's [Treasury Management Code of Practice](#)
- the risk governance arrangements, including considering risk tolerance and appetite, scrutiny of risks and risk challenge
- financial scrutiny and budget monitoring arrangements and CIPFA's [Financial Management Code](#).

Focus on these areas can help ensure that the right body is delivering the right level of oversight and is being held to account for their effectiveness.

Is the committee sighted on significant sources of assurance? For example, at Thurrock, the LGA Corporate Peer Challenge in 2018 raised concerns about the adequacy of risk management, but there was no evidence of it being reported formally to members or subject to any monitoring. Are other appropriate bodies receiving necessary assurance and acting on it?

Ask the internal auditor and the external audit team about their plans and how their work will provide assurance over these key areas.

Examine the output from audits, risk registers and other assurance work that you see at audit committee and consider whether there are any governance or financial risks that need further investigation. Are there any red flags and is action being taken to address them?

Summary

The public sector is a challenging environment to operate in, and although significant failures are rare, there are worrying examples of poor practice. Use the available resources to understand the underlying causes and consider whether your organisation is vulnerable.

Maintain a strong focus on governance, risk and control arrangements, escalating concerns where needed.

Operate as an effective audit committee, providing constructive challenge and working collaboratively to influence and support accountability.

Learning point

[Thurrock best value inspection report 2023](#)

“We were told that oversight of the strategy relied upon trust. That is an admirable quality and the right place to start. The leadership and management of a local authority, however, charged as it is with stewardship and proper expenditure of public funds, requires assurance that this trust is well placed. Copious mechanisms that could and should have provided that assurance – the ‘checks and balances’ of the system of operation that exist in every local authority – were debased at this Council. It is fundamental to good local government that the integrity of these systems should be maintained. The laxity and drift in the operation of basic components of governance and the misapplication or negation of its system of internal controls were managerial failures at the core of this Council’s business.”

The audit committee role in internal audit standards

In the UK public sector, internal audit teams follow the Public Sector Internal Audit Standards (PSIAS). These are professional standards, mandated by the relevant standard setters (CIPFA for UK local government bodies and HM Treasury for central government in England among others) based on the standards of the Institute of Internal Auditors (IIA).

Earlier this year, the IIA [consulted on new standards](#). CIPFA [responded to the consultation](#) in May 2023. Updated standards are expected to be published towards the end of 2023, effective 12 months later. CIPFA will work with the other standard setters through the Internal Audit Standards Advisory Board to consider a new form for the PSIAS, taking account of the updated standards.

At this stage, while we wait for the final version of the standards, it is not possible to say what the implications will be for audit committees. However, the draft standards introduced a new domain, Governing Internal Audit, which sets standards for how internal audit should be governed in an organisation. If adopted in its current form or with only minor changes, it will mean that the audit committee's interactions with internal audit would form part of internal audit's conformance with professional standards.

Ensuring that internal audit is properly supported and governed is essential for the overall success of internal audit. This is why CIPFA published [The Role of the Head of Internal Audit in Public Sector Organisations](#) (2019). These principles are reflected in CIPFA's guidance on audit committees too.

Please look out for future updates and analysis of the implications.

Accessing training and networking opportunities

CIPFA would encourage audit committee members to access any available training and networking opportunities. Regional forums for audit committee chairs have been established with assistance from the Local Government Association (LGA) and Welsh Local Government Association (WLGA), and each of these is running a programme of meetings and training events. CIPFA has been happy to speak at a number of these sessions already, and we will support where we can in 2023.

In December 2022, CIPFA ran a networking meeting for the co-opted independent members of audit committees and plans to hold a further session in the autumn 2023. This meeting was not a training session but an opportunity to connect and discuss the co-opted independent role. Further details will be available in due course.

CIPFA's training webinars are listed below, and in-house training delivered locally or by webinar is also available.

Webinars and training for audit committee members from CIPFA in 2023

Introduction to the knowledge and skills of the audit committee

The role and responsibilities of the audit committee and key aspects of the terms of reference.

- [17 July](#) and 28 September

Introduction to the knowledge and skills of the police audit committee

- Provisional date: September

Understanding local authority accounts for councillors

A webinar to support the review of the financial statements.

- [24 August](#)

Full programme details and booking information for webinars in 2023 will be announced later in the year and will be [available on the CIPFA website](#).

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

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: November

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 (PSIAS)
- 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 our support for audit committees](#).

Recent developments and resources

Reports, recommendations and guidance

The Committee on Standards in Public Life's report, 'Leading in Practice'

The independent Committee on Standards in Public Life has published '[Leading in Practice](#)', which shares examples and case studies gathered from public and private sector organisations on maintaining ethical organisational practices.

Advisory note three: The importance of good governance, effective oversight and accountability of council-owned companies

Key messages from the [CIPFA Practice Oversight Panel](#) on the crucial importance of good governance during the establishment and subsequent operation of council-owned companies.

Police and crime panels

[Guidance for police and crime panels](#) in their role providing support and scrutiny to locally elected police and crime commissioners.

Learning from consultancy projects

This [report from CIPFA](#) details the areas of consultancy support undertaken with police forces.

Timeliness of local auditor reporting on local government in England

An [update by the National Audit Office](#) on local auditor reporting and its impact.

Public Accounts Committee (PAC) report – local audit

This [PAC report](#) finds that the unacceptably high backlog in local government audit system may get worse before improving.

Audit Quality Monitoring report 2020/21

[Quality report](#) on the work of local auditors appointed by Public Sector Audit Appointments (PSAA) for the 2020/21 financial year. Seventy-eight percent of financial statements audits met the required standards.

Tackling fraud and corruption against government

Recent trends from [National Audit Office reports](#) reviewing how well-placed government is to understand and tackle fraud and corruption across government.

Innovation and Risk Management – a good practice guide


A [good practice guide](#) from the Northern Ireland Audit Office that covers the barriers to and enablers of innovation in public sector organisations.

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	
Commissioning, procurement, and contracting risks	Issue 8
Reviewing assurance over value for money	Issue 9
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
Issues from 2016	
Delivering Good Governance in Local Government: Framework (2016), 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
Issues from 2019	
Focus on local audit, National Audit Office report on 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
Issues from 2022	
New CIPFA guidance on audit committees in local authorities and police, <i>Internal audit: untapped potential</i>	Issue 36
Issues from 2023	
Assessing audit committee effectiveness	Issue 37



77 Mansell Street, London E1 8AN
+44 (0)20 7543 5600

cipfa.org

The Chartered Institute of Public Finance and Accountancy. Registered with the Charity Commissioners of England and Wales No 231060. Registered with the Office of the Scottish Charity Regulator No SC037963.

07/2023