

# Audit Committee Update

Helping Audit Committees to be Effective

**Issue 33**

**December 2020**

**The Head of Internal Audit Opinion for 2020/21: the Audit Committee Role**

**The Redmond Review: Issues for English Audit Committees**

**Regular Briefing on New Developments**

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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 the latest issue, we provide details of new guidance from CIPFA to local government on the head of internal audit's annual opinion and key recommendations of interest from the Redmond Review.

The remainder of this issue focuses on keeping you up to date with our regular briefing covering recent reports and guidance.

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Audit Committee Update is covered by CIPFA's copyright and so should not be published on the internet without CIPFA's permission.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](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 please visit: [www.cipfa.org/Register](http://www.cipfa.org/Register).

# Webinars and training for audit committee members in 2021 from CIPFA

## Update for Local Authority Audit Committee Members

This webinar is suitable for audit committee members or those working with the audit committee in local government. It will include an update on local audit developments and other developments relevant to the audit committee role. It offers the opportunity to discuss issues that will be relevant for the 2020/21 annual governance statement or audit committee work plans for 2021.

- [Wednesday 27 January](#)

## 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.

- Tuesday 25 May

## Introduction to the Knowledge and Skills of the Audit Committee

Provisional dates for this are 8 and 9 September.

## Introduction to the Knowledge and Skills of the Police Audit Committee

Provisional dates for this are 15 and 16 September.

Full programme details and booking information for webinar or face to face event dates in 2021 will be announced later in the year and will be available on the [CIPFA website](#) in due course.

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

In-house 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.

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

# The head of internal audit's annual opinion

## What the audit committee needs to know

### The requirements

Your head of internal audit is required by the Public Sector Internal Audit Standards (PSIAS) to issue an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Usually this is presented in an internal audit annual report to the audit committee following the end of the year to which it relates. The annual opinion should be used to inform the organisation's annual governance statement which is published alongside the financial statements. The internal audit annual report should also include a statement on conformance with PSIAS and the results of the quality assurance and improvement programme of the year.

### Issues for 2020/21

The impact of COVID-19 on internal audit will have been significant for all internal audit teams. As a result you may already be aware of changes to internal audit plans and possibly some changes to internal audit resources. For some heads of internal audit there will be concerns whether sufficient internal audit work will be completed to support issuing an opinion in accordance with the professional standards.

For this reason CIPFA has decided to issue [guidance](#) about the annual opinion for 2020/21. CIPFA has the responsibility for setting standards of internal audit in local government across the UK, which it does in conjunction with other professional standard setters for the public sector. The guidance is aimed at the leadership team and audit committee, who are the main recipients of the annual opinion, as well as the head of internal audit who must present it. It should be followed therefore by all responsible for internal audit in local government.

CIPFA is conscious that local government bodies are having to make difficult decisions about how they prioritise their resources and support critical services. Guidance was issued to internal auditors earlier in the year about how they can best support their organisation during this critical period. The new guidance tries to ensure that issues around the longer-term sustainability of internal audit are taken into account also.

### Key aspects of the guidance

The guidance encourages the head of internal audit to discuss the risk of any limitation of scope to the annual opinion at an early stage with the audit committee and the leadership team. One of the requirements of the PSIAS is that where the head of internal audit believes that the level of internal audit resources will impact adversely on the annual opinion they must raise it. CIPFA would like to see early discussions with the audit committee so that options for mitigating action can be discussed and agreed.

When considering the risk and the scope for any mitigating action it is important to have an appreciation of the potential consequences. Obviously these will depend on the severity of any limitation of scope to the annual opinion. The most significant consequence is the reduction in independent assurance that the framework of governance, risk management and control is adequate and effective. There may also be other consequences, particularly if there is a significant limitation of scope. These include a potential threat to conformance with the PSIAS and adverse comment by the external auditor. Further details are set out in the guidance.

The guidance suggests wording that could be used to clarify the impact on the annual opinion. There is no regulated form of words on how the head of internal audit expresses their annual

opinion, although it should of course fulfil the expectations of PSIAS. If the head of internal audit chooses different wording to that suggested by CIPFA that is acceptable, as long as it at least covers the areas in the guidance.

## Role of the committee

From the audit committee's point of view the work of internal audit is a valuable source of assurance, helping the committee fulfil its own terms of reference. So if there is a reduced level of internal audit then it may be harder for the committee to do its job. If the annual opinion is impacted then the evaluation of effectiveness that underpins the annual governance statement will also be impacted making it harder for the committee to review the statement.

The other aspect of concern to the committee is its responsibility to provide oversight of internal audit's independence, objectivity, performance and professionalism as set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2018. You are likely to have something similar in your committee terms of reference. It is possible that the impact of COVID-19 on internal audit could mean that internal audit no longer conforms with PSIAS. The head of internal audit evaluates conformance with PSIAS as part of the quality assurance and improvement programme and this underpins their statement of conformance in the annual report. The audit committee will want to review any concerns about conformance and plans to address these issues.

## Key questions for the committee

Questions to discuss with the head of internal audit:

1. What has been the impact on internal audit resources and planned work during the year to date? What will be the impact for the remaining year?
2. Are there any areas where you have concerns about maintaining conformance with PSIAS?
3. Do you think there is a risk to your annual opinion? Is a limitation of scope likely?
4. What is your proposed action plan to recover from the impact of COVID?
5. What support can the audit committee provide to you to help manage this situation?

Questions to discuss with a member of the leadership team:

1. If the head of internal audit is unable to issue their annual opinion without a limitation of scope what will that mean for the annual review of governance?
2. What concerns do you have about governance, risk management and control within the organisation?
3. What other sources of assurance can we look to if internal audit is reduced?

Questions to discuss with external audit:

1. What impact will reduced internal audit coverage and a limitation of scope to the annual opinion have on the external audit work?
2. How might you take into account the impact on internal audit in your work on value for money or best value?

**Diana Melville**

**Governance Advisor, CIPFA**

## The Redmond Review

Last year the government commissioned Sir Tony Redmond to undertake a review of the local audit arrangements and financial reporting in local government in England. The report, [Local authority financial reporting and external audit: independent review](#), was published in September and contained wide ranging discussion and recommendations on the issues. The government has now formally responded to the report and discussions with stakeholders are taking place to take forward most of the recommendations.

### Weaknesses in the local audit system

A key focus of the review was to address the issues of weakness in the local audit market. The recommendations are of interest to audit committee members as they interact first hand with their local audit team and have an interest in a system that performs effectively. However the recommendations to address the weaknesses are not made to local authorities but require action by the government, national bodies and the firms themselves.

Key recommendations included changing the governance and oversight arrangements for local audit by establishing a new Office of Local Audit and Regulation (OLAR) to bring together roles currently undertaken by Public Sector Audit Appointments, the Comptroller and Auditor General, Financial Reporting Council and the Institute of Chartered Accountants in England and Wales. The Department is considering these recommendations further and will make a full response by spring 2021.

Other recommendations concerned a review of fee structures and the training of auditors to ensure adequate capacity and quality within the local audit market. It was also proposed that the deadline for publication of local authority accounts should be put back to allow more time for audit.

### Supporting the effectiveness of the audit committee

Other aspects of the review are also important for audit committees. One issue highlighted was the performance of the audit committee itself, particularly council audit committees rather than the audit committees of police bodies. The report noted the [CIPFA position statement and guidance](#), though unfortunately not the current edition. It made a recommendation that consideration should be given to the appointment of at least one independent member, suitably qualified, to the audit committee. This is consistent with existing recommendations by CIPFA in its guidance. The Department has endorsed that recommendation and will work with the LGA, NAO and CIPFA to deliver it.

[In its own response](#) CIPFA has commented that it would have liked to have seen additional recommendations around the adequacy of audit committee arrangements. A review of the size, membership and reporting arrangements of a council's audit committee would help to ensure that it is fit for purpose.

### Transparency of financial reporting

The report noted the complexity of financial reporting in local government that comes about from incorporating both the budget analysis of information for council tax purposes and meeting International Financial Reporting Standards and statutory requirements. The desirability of increasing the transparency of financial reporting is widely shared and the report discussed ways to do this.

The report recommended that a new standardised statement of service information and costs should be prepared by each authority. The statement would allow comparison against the budget but still be consistent with the statutory accounts and subject to external audit. The

report included some rough examples of what the statement could look like for each authority type. The government has agreed this recommendation and will work with CIPFA and others to implement it.

Audit committees have a useful perspective on financial reporting, not only as the reviewers of the statements but also by bringing an awareness of the wider community's needs of financial accountability. So do look out for further consultations and discussions on this.

### **CIPFA's response to the report**

CIPFA has published its formal [response](#) and is keen to work with the government, stakeholders and local government to make improvements. CIPFA will continue to provide support for audit committees with its guidance, briefings, training and effectiveness reviews.

### **Next steps for audit committees**

This is an important area that has the potential to impact on the work of the audit committee in several ways. CIPFA will be monitoring the government's response and progress in response to the recommendations. It will feedback to Better Governance Forum subscribers on developments through the regular newsletter, further issues of Audit Committee Update and also our webinars.

We will be holding an update webinar for audit committee members on [27 January](#) and will include the latest on the Redmond Review as part of that programme. Further details can be found on the CIPFA website.

**Diana Melville**

**Governance Advisor, CIPFA**



## Recent developments you may need to know about

### Legislation and regulations

#### The Local Government and Elections (Wales) Bill

The [Bill](#) has almost completed its passage through the Senedd and is likely to receive Royal Assent in January 2021. The Bill contains provisions to amend the constitution of audit committees in councils in Wales requiring one third of the membership to be lay persons. The committee's name will change to "governance and audit committee" and the chair must also be a lay member.

The Bill also contains provisions for the review of their performance including an annual self-assessment and a panel performance assessment. The governance and audit committee will have the responsibility to review the draft performance assessment report before publication.

The Welsh Government is currently consulting on [draft statutory guidance](#) to councils on the performance assessment review. The response date is 3 February.

### Reports, recommendations and guidance

#### Facing up to COVID-19 in the public sector: The internal audit response

This [CIPFA Insight](#) provides some examples of how internal audit teams across different public services have responded to those challenges. It will be of value to audit committees in helping them to understand the role and potential of internal audit. It also includes some key questions for audit committee members to ask.

#### Local auditor reporting in England tool

The [National Audit Office](#) has launched a map to assist access to local audit reports for councils, police and health bodies. The map can be used to see where auditors have issued non-standard reports locally in the NHS and local government in England.

#### FRC publishes major local audit inspection results

The Financial Reporting Council (FRC) has published its first [report on inspection findings](#) into the quality of major local audits in England for the financial year ended 31 March 2019.

Of the 271 major local audits in the FRC's inspection scope, the FRC reviewed 15 audits across the seven largest audit firms, covering both the financial statement opinion and the value for money arrangements conclusion work. For the financial statement opinion, two audits reviewed by the FRC required significant improvements and seven required improvements. None of the value for money conclusions reviewed required more than limited improvement. Audit committee members may wish to review the results for their local audit firm and follow up.

### Commercialisation in local government

A [report](#) by Audit Wales concludes that councils need the right culture, skills and systems to unlock the benefits and mitigate the risks of commercialisation. It includes a section on governance and scrutiny and a self-assessment of key issues to consider.

### Committee on Standards in Public Life's landscape review of public standards

The review will look at best practice and identify any themes and gaps in the way the Seven Principles of Public Life are promoted and maintained.

The committee is running a [public consultation](#) and a [public sector survey](#) as part of this review.

### New complaints handling guide

The Local Government and Social Care Ombudsman has issued new [guidance](#) on complaint handling for local authorities. It offers practical guidance on running a complaints system to ensure it is effective and will help improve services.

### Procurement fraud risk guide

The Northern Ireland Audit Office [guide](#) has been developed to help public sector organisations recognise the nature and level of procurement fraud and help ensure effective controls are put in place.

### National Fraud Initiative 2020 Report England

The Cabinet Office has reported the latest results from the [National Fraud Initiative](#) in England.

### National Fraud Initiative 2020 Wales

Audit Wales has reported the latest results from the [National Fraud Initiative](#) in Wales.

### Fraud and Irregularity Update 2019/20 Scotland

Audit Scotland's [summary](#) of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2019/20.

### Leading Questions

[Leading Questions](#) provides the questions asked in its publication *Leadership Matters* covering six areas for best practice leadership for local authorities. This will enable an authority to do a top-level self-assessment on their leadership team which can be used for improvement and development planning and to support the annual review of governance.

Leading Questions is available for Better Governance Forum subscribers. The full publication *Leadership Matters* is available to purchase from CIPFA but your organisation may already have a copy.

### Recent public interest reports and S114 notices

Audit committee members are likely to be aware of recent developments where the London Borough of Croydon has issued two s114 notices. In addition a [public interest report](#) was issued by their external auditor.

A [Report in the Public Interest](#) was also issued by the auditor of Nottingham City Council in respect of the council's energy company.

While these developments will reflect local factors it is useful for audit committee members to be aware of any 'lessons learned' that could be relevant for their organisation.

### Update to the Three Lines Model

This is an update to the Three Lines of Defence. The new [model](#) sets out new principles to define the roles of the board or governing body, management and operational leaders including risk and compliance (first and second line roles) and independent assurance through internal audit (third line). The intention is that the model should apply to all organisations, regardless of size or complexity.

### Financial scrutiny practice guide

The Centre for Public Scrutiny and CIPFA have released a new [guide](#) for local authorities in England to support effective financial scrutiny following the COVID-19 pandemic.

### Guide for audit and risk committees on financial reporting and management during COVID-19

The National Audit Office has issued a [guide](#) to help audit and risk committee members discharge their responsibilities on financial reporting.

## 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.	
<b>Issues from 2012</b>	
Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	<a href="#">Issue 7</a>
Commissioning, Procurement and Contracting Risks	<a href="#">Issue 8</a>
Reviewing Assurance over Value for Money	<a href="#">Issue 9</a>
<b>Issues from 2013</b>	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	<a href="#">Issue 10</a>
Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA's Guidance on Audit Committees	<a href="#">Issue 11</a>
<b>Issues from 2014</b>	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act	<a href="#">Issue 13</a>
<b>Issues from 2015</b>	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	<a href="#">Issue 16</a>
The Audit Committee Role in Reviewing the Financial Statements	<a href="#">Issue 17</a>
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors	<a href="#">Issue 18</a>
<b>Issues from 2016</b>	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors	<a href="#">Issue 19</a>
CIPFA Survey on Audit Committees 2016	<a href="#">Issue 20</a>
The Audit Committee and Internal Audit Quality	<a href="#">Issue 21</a>
<b>Issues from 2017</b>	
Developing an Effective Annual Governance Statement	<a href="#">Issue 22</a>
2017 Edition of the Public Sector Internal Audit Standards, Risks and Opportunities from Brexit	<a href="#">Issue 23</a>

<a href="#">Issues from 2018</a>	
The Audit Committee Role in Risk Management	<a href="#">Issue 24</a>
Developing an Effective Annual Governance Statement	<a href="#">Issue 25</a>
CIPFA Position Statement on Audit Committees in Local Authorities and Police 2018	<a href="#">Issue 26</a>
<a href="#">Issues from 2019</a>	
Focus on Local Audit, National Audit Office Report: Local Authority Governance	<a href="#">Issue 27</a>
The Audit Committee Role in Counter Fraud	<a href="#">Issue 28</a>
CIPFA Statement on the Role of the Head of Internal Audit	<a href="#">Issue 29</a>
External Audit Arrangements for English Local Government Bodies	
<a href="#">Issues from 2020</a>	
CIPFA Financial Management Code, Responding to the Redmond Review: Results of CIPFA's Survey on Audit Committees	<a href="#">Issue 30</a>
Compendium Edition: Reviewing the Audit Plan, Self-assessment and Improving Effectiveness, Developing an Effective Annual Governance Statement and Focus on Local Audit	<a href="#">Issue 31</a>
COVID-19 Pandemic – Key Issues for the Audit Committee Regular Briefing on New Developments	<a href="#">Issue 32</a>

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