

Better Governance Forum briefing paper

Audit Committee Update

helping audit committees to be effective

Issue 1 – Reviewing the Audit Plan
January 2010

Introduction

Dear Audit Committee Member,

This is a new briefing paper for audit committee members in public sector bodies.

It has been produced by the CIPFA Better Governance Forum and is free to our subscribing organisations. Its aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role. This first issue includes an article to help you review your internal audit plan and pointers to other information and guidance relevant to your role.

The CIPFA Better Governance Forum is part of the Chartered Institute of Public Finance and Accountancy which is the leading body for setting standards of governance and recommended practice for audit committees in local government and other parts of the public sector. The Forum is a subscription network covering all aspects of governance providing guidance, briefings and workshops.

I hope you will find this first issue helpful. It is our intention to produce this briefing three times a year. It will be emailed to the key contact in your organisation who will be able to email it to you or print it if you prefer. If you want to make sure you receive your copy directly please provide us with your details using the link on page 3.

We welcome feedback on this issue and suggestions for future topics. Please let us know if we have got this right.

Best wishes

Diana Melville
Governance Advisor
CIPFA Better Governance Forum
Diana.Melville@cipfa.org.uk

Future editions of this briefing:

The next edition is planned for May and will focus on the audit committee's role in reviewing the Annual Governance Statement or Statement on Internal Control.

In the autumn we are planning a briefing on risk management and how the audit committee can help make the management of risk more effective in the organisation.

Workshops and training for audit committee members in 2010

Advanced Audit Committees

20 January 2010 – London
10 March 2010 – Edinburgh
17 November 2010 – York

http://www.cipfanetworks.net/governance/events/default_view.asp?id=1026

Effective Audit Committees

17 June 2010 – Glasgow
14 July 2010 - London

<http://www.cipfanetworks.net/training/>

Reviewing the Annual Governance Statement and Statement of Accounts

26 May 2010 – London
8 June 2010 – Birmingham

Further details will be available from www.cipfanetworks.net/governance nearer the time.

In-house training

In house training, tailored to your needs is available. For further details contact Adam Goodman Bolton on 0208 6678543 or Adam.Goodman-Bolton@cipfa.org.uk
<http://www.cipfanetworks.net/training/>

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 are an audit committee member who has been forwarded a copy of this report and would like to receive it directly in future, please email Diana Melville Diana.melville@cipfa.org.uk

Reviewing the Audit Plan

At least once a year, but possibly more frequently, both your internal and external audit teams will ask you to review their audit plans and approve them. If you aren't familiar with audit plans, you may well be asking yourself how to do this and how you can add value. In this article, I will discuss:

- Why draw up an audit plan?
- Who is involved?
- How is the audit plan produced?
- What does the audit plan cover?
- When is the audit plan written?
- Your role in relation to the audit plan

I will finish with a “dashboard” of key questions for you to ask to satisfy yourself that the plan has been drawn up appropriately and will deliver the assurance that you need as an audit committee member. While I concentrate on your role in relation to internal audit, many of these points also relate to external audit.

Why draw up an audit plan?

An audit plan is needed to ensure that your auditors address all the main areas of risk within your organisation and can provide assurance to support your Annual Governance Statement or Statement on Internal Control. At the end of each year the head of internal audit provides an opinion on the effectiveness of the control environment so it is vital that the plan is sufficient to support that opinion. It is also needed to ensure auditors use their limited resources (budget, time, people and expertise) to best effect. Almost inevitably audit needs outstrip audit resources and the plan will help your audit team set its priorities, in discussion with you.

Who is involved?

The audit plan is normally drawn up by the head of internal audit, in consultation with directors and members of the audit team. As the internal audit plans and external audit plans should be aligned, each should consult the other as part of this process.

How is the audit plan produced?

The audit plan is ‘risk-based’ to address the financial and non-financial risks faced by your organisation and your key priorities. Your organisation’s risk register and the effectiveness of risk management will be reviewed to help develop the plan. The plan may also include work to be undertaken on behalf of your external auditor. The identified audits will be balanced against the resources available and the plan drawn up accordingly.

What does the audit plan cover?

The audit plan should show how your internal audit strategy is going to be achieved in accordance with the section’s terms of reference. Plans include a combination of planned work and allowances for reactive work. They are always flexible so that they can reflect the changing risks and priorities within your organisation. Plans will also include allowances for “non-chargeable” time.

Planned audit work consists of a series of reviews of different aspects of your organisation’s operations. The plan will include some high risk areas, for example areas of significant financial risk or high profile projects or programmes. Or they could be areas where there are concerns about poor performance, fraud or emerging risks. Some higher risk audits may feature annually in audit plans. Other areas, particularly financial systems, may be audited regularly even if they are well controlled because of their significance to the financial statements. The frequency will usually be agreed with the external auditor. Other parts of the plan will reflect the risks and priorities of the organisation and the judgement of the head of internal audit.

Reactive audit work may include investigations, giving advice, supporting working groups and other such matters. Non-chargeable time includes annual leave, training, administration, team meetings etc. A working year is approximately 260 days. A typical auditor (not a trainee or a manager) will carry out about 200 audit days/year.

When is the audit plan written?

Detailed audit plans normally cover the organisation's financial year, although this is not mandatory. The audit plan is, therefore, generally written a few months before the start of the audit year for approval by the audit committee at the meeting before the start of that year. As the plan has to be flexible, you should be kept informed of minor changes and receive a revised plan for approval if there are any significant changes during the year.

There may also be a strategic plan that outlines the main direction for the audit team over a longer period than a year (perhaps three years). This is particularly useful to understand the wider coverage of risks and controls.

The audit committee's role

The audit committee should be both challenging of the plan and supportive in its delivery. You need to be sure that the organisation's risks and priorities are considered, that the plan is aligned with the audit strategy and terms of reference, that internal and external audit have liaised in drawing up their plans and that your auditors have exercised their independence and have not been unduly influenced by others in deciding what they will or (even more importantly) will not examine. You could review the audit strategy and terms of reference at the same time to ensure that they are still relevant and appropriate.

You also need to consider how the plan relates to other sources of assurance to support the Annual Governance Statement or Statement on Internal Control, for example assurance from the risk management process or management assurances. Taken as a whole, will you get the assurance you need?

Once the plan has been approved, your role is then to monitor activity and outcomes against that plan. Is it being delivered? Is the audit work delivering the expected outcome? You may also need to support your auditors, if they are struggling to get auditee engagement or experience a shortfall in resources. Above all, you are there to get action as a result of audit work.

Key questions to ask:

1. Who did the head of internal audit liaise with in drawing up this plan? Did this include external audit?
2. How does this audit plan link to our risk register and our strategic plans?
3. What audits have you left off this plan and why? When do you plan to carry out this work?
4. How does the audit plan fit with other assurance work? Are there any gaps or is there duplication?

Elizabeth Humphrey

Senior Associate, CIPFA Better Governance Forum

Recent developments you may need to know about:

Scrutiny of Treasury Management

CIPFA Treasury Management Code of Practice 2009 has recommended that a nominated committee (for example an audit committee) should be responsible for effective scrutiny of treasury management strategy and policies.

What do Audit Committee members want from their Head of Internal Audit?

Audit committee members are one of the most important stakeholder groups of the internal audit profession. Over the next few months CIPFA will be developing a statement on the role of the head of internal audit. This is being overseen by a steering group. The draft statement will be launched at CIPFA's audit conference in May and formal consultation sought. Before then CIPFA is already seeking views and opinion on the role and is keen to hear from audit committee members. If you would like to read more about the proposed statement or would like to send in you views. Follow this link <http://www.cipfa.org.uk/panels/audit/index.cfm> .

Protecting the Public Purse

This report from the Audit Commission highlights the risks of fraud to local government and identifies good practice in fighting fraud. It includes a short checklist for those responsible for governance so it is an ideal resource for audit committee members. The report focuses on local government but many of the issues apply equally to other public sectors organisations. The report is available from the Audit Commission website <http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/20090915protectingthepublicpurse.aspx>

The Audit Committee Cycle

Each year the audit committee will be responsible for a number of core actions. Here are some snippets on how you might prepare for some of these.

Reviewing the Annual Governance Statement (AGS) or Statement on Internal Control (SIC):

What assurance on partnerships are you expecting to receive to support the AGS or SIC? Look back at what has been on your agenda on partnerships so far this year and consider what you know about governance risks to your organisation's partnerships.

Reviewing the final accounts:

The 2009/10 accounts will still need to be prepared under UK GAAP and the local authority SORP. However, local authorities should be well on their way to prepare for the introduction of International Finance Reporting Standards (IFRS) in 2010/11, including transitional arrangements. You may have had a briefing already from your finance team about the implications of IFRS, but if not it may be worth asking about the planned changes and its implications for producing the accounts in 2011. With 2010/2011 being the first financial year of IFRS, ask you finance team about the impacts on your organisation.

Central Government and the NHS are ahead of local government in terms of the introduction of IFRS. For these sectors the 2009/10 accounts will be produced under IFRS. So as in local government it may be worth asking your finance team about the implications and impacts for producing the 2010 accounts.

External Audit reports (Local Authorities):

You will have seen your own organisation's results but did you know the Audit Commission published all the Comprehensive Area Assessment results on the 'oneplace' website <http://www.direct.gov.uk/oneplace>

Use of resources scores for all local government bodies can be found using this link <http://www.audit-commission.gov.uk/localgov/audit/uor/use-of-resouces-200809/pages/auditingtheaccounts.aspx>

