

CIPFA Better Governance Forum

Audit Committee Update

Helping audit committees to be effective

Issue 21

The audit committee and internal audit quality

Briefing on topical issues

Audit committee training

December 2016

Introduction

Dear audit committee member,

In the latest issue of Audit Committee Update we address the quality assessments that are a mandatory requirement of the Public Sector Internal Audit Standards. Our article is from one of CIPFA's own assessors, Elizabeth Humphrey, and she outlines the key facts to know about internal audit quality assessments. In particular she highlights what part the audit committee should play in supporting the assessments.

The external quality assessment or EQA is one aspect of the quality assurance and improvement programme that internal auditors need to have in place, and supporting the quality of internal audit is one of the most important roles that the audit committee has. Unless the committee can feel confident about the work of its internal auditors, the assurance the committee can provide to the organisation is undermined.

The remainder of this issue focuses on keeping you up to date, with our regular briefing covering recent legislation, 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

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Receive our Briefings Directly

This briefing will be sent to the main contact 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. To register now, please visit www.cipfa.org/Register.

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.

Issue	Principal Content	Link
Issues from 2010 – subsequent issues have updated the content in these issues.		
Issues from 2011		
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
Issues from 2012		
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
Issues from 2013		
10	Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
11	Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA’s Guidance on Audit Committees	Issue 11
12	Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	Issue 12
Issues from 2014		
13	Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
14	External Audit Quality and Independence, Government Consultation on Local Audit Regulations, CIPFA’s Consultation on a New Counter Fraud Code, Regular Briefing on Current Issues	Issue 14
15	CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, the Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments	Issue 15

Issues from 2015		
16	What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
17	The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17
18	Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	Issue 18
Issues from 2016		
19	Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	Issue 19
20	CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	Issue 20

Workshops and Training for Audit Committee Members in 2017 from CIPFA

Development day for local government audit committees

This workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role. In addition, it will feature the new governance framework, working effectively with internal audit and other key topics.

- [17 January 2017, London](#)
- [18 January 2017, Manchester](#)

Developments in police audit committees

These events are suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables. These events are run in conjunction with CIPFA's Police Network.

- 20 September 2017, London
- 21 September 2017, York

Other CIPFA events information and dates are available on the [website](#).

In house training and facilitation

In house audit committee 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.

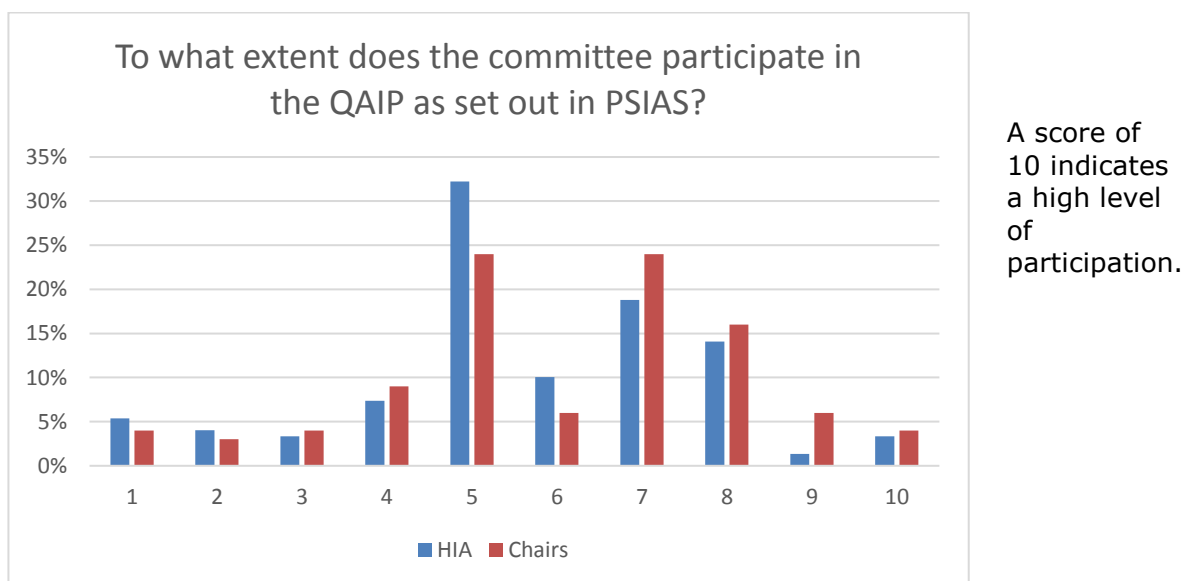
For further details contact blane.sweeney@cipfa.org or email diana.melville@cipfa.org or visit the [CIPFA website](#) where we have a brochure to download outlining the support we have available for audit committees.

The Audit Committee and Internal Audit: Supporting your Auditors to do their Best

How can you help? How would you know how they are doing?

The answer lies in the Public Sector Internal Audit Standards (PSIAS), the Quality, Assurance and Improvement Programme (QAIP) and the annual internal and external quality assessments (IQA and EQA), but how does the audit committee get involved in this alphabet jungle and what more could you do?

The PSIAS came into effect from 1 April 2013 and set out expectations of auditors, audit committees and senior management. By now, you should have received the results of up to three internal quality assessments (IQAs) against them (normally in the annual audit report). You may also have commissioned an external quality assessment (EQA) and had a chat with an external assessor. In the recent CIPFA survey on audit committees in local authorities and police there was a mixed response to the question about the audit committee's involvement in the quality programme. The chart below shows the responses from heads of internal audit (HIA) and chairs of audit committees for local authorities. For further details of the survey download our briefings from the [CIPFA website](#).



Quality Assurance and Improvement Programme (QAIP)

Every audit section is expected to have a QAIP. This is the ongoing process through which they check that their performance meets their own criteria for delivery and also professional standards, including the PSIAS. A typical QAIP will consist of:

1. routine signing off of audits at different stages, for example after the terms of reference have been written, at the end of the fieldwork and before the draft and final reports are issued

2. a detailed review of the audit file at the end of the fieldwork stage, to check for mistakes, gaps in information and that all the key issues have been covered and are included in the report
3. post-audit questionnaires to auditees asking about the progress of the audit and the auditor's performance; these can be of limited value if the response rate to these questionnaires is poor
4. sample reviewing of completed audit files by staff who were not involved in the original audit (only large audit teams will have the resources to undertake this sort of review)
5. a set of performance indicators against which performance is measured over time
6. a programme for internal and external quality assessments (IQA and EQA), indicating who is to be involved.

Internal quality assessment (IQA)

The PSIAS require audit functions to review their performance against the standards periodically. While the standards don't specify a frequency, most audit teams carry out a review every year and report it in their annual report, together with their report of their activities in the year and their opinion on the system of internal control. The reporting should cover:

1. the scope of the review
2. who undertook the review, whether they were part of the audit team and their knowledge and experience of the standards
3. the outcome and conclusions of the review
4. actions to be undertaken as a consequence of the review.

IQAs should be carried out both within the audit team and by others within the organisation who have sufficient knowledge and understanding of internal audit to be able to reach a valid opinion. This is one area where the audit committee can play a useful role by being part of the review of the service, annually or from time to time. Carry out your own audit of the auditors by seeking evidence from others, looking at documentation and reviewing some audit work. You'll learn a lot and your auditors will greatly value your input. You could look for the following:

1. Evidence of thorough, risk-based planning. Are the risks to be audited documented? Do auditees think the auditors tackled the significant risks in their audit work? Does the audit work and report reflect the risks identified during the planning stage?
2. Evidence of effective reporting. Can you follow a trail from the audit plan to the audit report? Is the report clear and concise, but not too concise? Does it set out the objectives and scope of the audit, the risks to be examined and the outcome

of that examination? Do the recommendations seem sensible given the findings and are the responses to them acceptable?

3. Evidence that audit has sufficient resources and is maintaining its objectivity and independence, acting with integrity, confidentiality and competence. When did you last discuss these matters with your auditors? What do external audit, the director of finance, the chief executive have to say? What do you think?

External quality assessment (EQA)

Once in every five year cycle (ie before 1 April 2018), each audit team is required to commission an external review of their service against the PSIAS (an EQA). The external reviewer must be suitably qualified to carry out this work (typically they will be or have been a head of audit) and must be independent of the organisation. The level of independence is a matter of judgement but an arrangement whereby two heads of audit agree to review each other's service is not appropriate.

Although the sponsor of the review is likely to be an officer, the audit committee should be involved in the commissioning of the EQA, while it is being undertaken and at the end of the review as follows:

Commissioning:

1. Consider what is being commissioned: a peer review, a review against the IQA or a fully independent EQA.
2. Take a view on who might undertake this work, their independence of the organisation and qualifications to carry it out.

During the review:

1. At the very least, the chair of the audit committee should be one of the EQA interviewees. The reviewer will seek your perspective on audit's independence and objectivity, the planning and reporting of audit work and the way in which the auditors keep the audit committee informed, and the working relationships between the auditor and audit committee.
2. Some reviewers may want to speak to more audit committee members as their relationship with the audit team may differ from that between the chair and the auditors.
3. Some reviewers may wish to attend an audit committee to observe the interaction at first hand.
4. If any major findings come out of the review, you should expect to be informed of them as soon as possible.

After the review:

The reviewer will produce a report, identifying compliance and non-compliance with the standards and making recommendations and suggestions for improvement. This report

should be included on the next audit committee agenda and you should follow up on activities against the action plan.

What do you do if your internal audit is provided by a contractor?

There has been some confusion about whether an IQA or EQA is required if you are using contracted internal audit and they have their own IQA and EQA arrangements. This will depend on the nature of the external provision and your officers will need to seek detailed advice.¹ In essence, any assessment, internal or external, looks both at the quality of the audit work and the way in which the audit function works with the organisation. While the quality of work may be covered by a review of the contractor's arrangements, especially if they do not vary their approach from client to client, the interaction with each client organisation probably isn't. Deciding on an appropriate scope for any review to avoid duplication and not be too onerous for the contractor is key.

Conclusion

Any quality assessment, internal or external, is intended to add value and improve the service provided by your internal auditors. An external reviewer is likely to be a great source of advice and suggestions. Make the most of the opportunities that come with such a review and use it to develop your audit team to deliver their best.

Elizabeth Humphrey CPFA

CIPFA Governance and Audit Associate

¹ A guidance note has been issued by the Internal Audit Standards Advisory Board (IASAB) on this topic: [QAIP and Multi-client Service Providers \(2014\)](#)

Recent Developments You May Need to Know About

Legislation, regulations and consultations

Appointment of local auditors

In our previous issues of Audit Committee Update we have provided updates on the requirement to appoint local auditors under the Local Audit and Accountability Act 2014. Public Sector Audit Appointments (PSAA) is the organisation appointed by the communities and local government secretary to conduct a sector led appointment process that eligible bodies can opt into.

PSAA issued their invitation to local bodies on 27 October 2016 with a closing date of 9 March 2017. They have put in a lengthy response period for the acceptance of the invitation, recognising that under the regulations councils must have the approval of full council to opt in. The appointment period will last for five years. Further details about the invitation and PSAA's plans are on their [website](#).

The alternative to the PSAA appointment is to undertake an independent or shared appointment, using an auditor panel to provide oversight. Authorities should also have regard for the EU procurement thresholds.

For further details on the regulations and process for the appointment of local auditors please see [earlier issues](#) and the guidance on [auditor panels](#) available from CIPFA.

Forthcoming changes to the Public Sector Internal Audit Standards (PSIAS)

The responsible internal audit standard setters for the public sector will be issuing a consultation on amendments to the PSIAS. The PSIAS incorporate the international standards established by the Global Institute of Internal Audit and the Institute has recently published new amendments to the standards to be effective from 1 January 2017 for their members.

While it is the intention to maintain the alignment of the PSIAS to the international standards, there will be no amendment until after the completion of the consultation. The consultation will propose some amendments, deletions and additions to the public sector requirements or interpretations that the PSIAS contain. It is intended that the updated PSIAS will take effect from 1 April 2017.

Further details will be made available on the consultations part of the [CIPFA website](#) by 19 December. Audit committees are encouraged to consider the changes and to respond to the consultation.

Draft regulations [The Combined Authorities \(Overview and Scrutiny Committees, Access to Information and Audit Committees\) Order 2016](#)

The draft regulations on audit committees cover political balance and definition of independence for the independent member(s) on the committee. They also cover the method of appointment.

Reports, recommendations and guidance

Delivering Good Governance in Local Government

The guidance notes to support the new [Framework](#) are now available for English, Welsh and Scottish local authorities and for police. The framework applies from April 2016 and will need to be reflected in the annual governance statement for 2016/17.

- [English local authorities](#)
- [Police](#)
- [Welsh local authorities](#)
- [Scottish local authorities](#)

Briefings on the CIPFA surveys of audit committees

Six thematic briefings on the results of the survey are now available to download from the CIPFA website. The surveys were issued earlier this year and sought the views of chairs of audit committees, heads of internal audit in local authorities and CFOs for the PCC. The briefings cover effectiveness, the relationship with internal audit, training and support plus specific findings for local authorities and police. The briefings also contain recommendations, and local authority and police audit committees are encouraged to review the findings and recommendations and consider their application for their own committee. [Audit committee survey briefings](#).

Reports in the public interest

PSAA publishes on its [website](#) reports in the public interest issued by local auditors. Over the last two months eight reports have been published, all on parish councils. In each case the council failed to meet its statutory duty to prepare an annual return about its finances and governance.

National Fraud Initiative

The report from the latest data matching investigations in England is now available. The initiative overseen by the [Cabinet Office](#) covers all local authority bodies plus other key sources of data and other public bodies. This year's report identified £200m of fraud. Another notable finding was a drop in the level of social housing fraud being identified. The reports for Scotland, Wales and Northern Ireland were published earlier in the year. See the last issue for further details.

Local government ethics in England: how is local ownership working?

The Localism Act 2011 placed the emphasis for the maintenance of standards on local ownership. This research report makes a preliminary assessment of local ownership in practice since the Act was passed among the 14 councils and three police forces that comprise England's North East region. [Public Money and Management](#)

Government interventions in local government

The Communities and Local Government Select Committee published a [report](#) in August identifying lessons to be learned from the government interventions in Rotherham and Tower Hamlets. The report emphasised the need for authorities to ensure they have proper checks and balances and scrutiny arrangements in place to drive a culture of transparency and continuous improvement. Communities and Local Government published their [response to the recommendations](#) in October.

As part of the annual review of governance arrangements to support the governance statement, authorities should be considering the adequacy of its scrutiny arrangements. Having effective scrutiny underpins the Principles in [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016)

Financial resilience and sustainability

These challenges are significant for many public bodies. Reports from the state audit institutions provide insights into the experiences of specific sectors.

- Wales Audit Office report on the [Financial Resilience of Local Authorities in Wales 2015-16](#)
- National Audit Office report on [Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing](#)
- National Audit Office report [Financial Sustainability of the NHS](#)
- Audit Scotland's annual review of the financial health and performance of the NHS in Scotland [NHS in Scotland 2016](#)
- Audit Scotland's [Audit of Higher Education in Scottish Universities](#)

In addition the National Audit Office is planning to produce a report on the financial sustainability of schools.

Value Creation in the Public Sector

The International Integrated Reporting Council and CIPFA, with the support of the World Bank, have published an [introductory guide](#) for public sector leaders on integrated thinking and reporting. The Guide outlines the fundamental concepts at the heart of Integrated Reporting (<IR>) and provides case studies of entities and organisations implementing <IR> to help them achieve the outcomes they are aiming for.

Upholding the Seven Principles of Public Life in Regulation

The latest report from the Committee on Standards in Public Life reviews how regulatory bodies in the United Kingdom uphold the Seven Principles of Public Life. [Striking the Balance Upholding the Seven Principles of Public Life in Regulation](#)

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