

CIPFA Better Governance Forum

Audit Committee Update

- helping audit committees to be effective

Issue 23

- 2017 edition of the Public Sector Internal Audit Standards
- Understanding the risks and opportunities from Brexit
- Recent developments and resources

September 2017

Introduction

Dear audit committee member,

Welcome to Issue 23 of our briefings 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 issue's main article focuses on changes to the Public Sector Internal Audit Standards that are likely to come before the audit committee. Having oversight of internal audit and supporting the professional practice of internal auditing is one of the key roles of the audit committee so it is helpful to be aware of new developments.

A second article considers some of the risks that may be featuring in your risk registers around Brexit. This is of course an area where there is a lot of uncertainty, however, it is helpful for a public sector organisation to think through any likely implications for service delivery and resources management.

I hope you will find this issue helpful. We welcome feedback on these briefings and suggestions for future topics. Please let us know if we are getting them right.

Best wishes

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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. Register now, please click here <https://www.cipfa.org/Register>.

Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. The earlier issues are on the archive site. Click on the links below to find what you need.

Principal Content	Link
Issues from 2010 – the content in these issues has been replaced by more recent issues	
Issues from 2011	
Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	Issue 4
Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA's Survey of Audit Committees in Local Government	Issue 5
Partnerships from the Audit Committee Perspective	Issue 6
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
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	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
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
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	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	Issue 19
CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	Issue 20
The Audit Committee and Internal Audit Quality, Briefing on Topical Issues	Issue 21
Issues from 2017	
Developing an Effective Annual Governance Statement, Regular Briefing on Current Developments, Audit Committee Training	Issue 22

Workshops and Training for Audit Committee Members in 2017

Development day for police audit committees

The Better Governance Forum and Police Network have run workshops for members of police audit committees over the past two years. These workshops provide the opportunity to receive briefings on current issues in policing, audit and governance. The workshops are a practical way to improve the focus and impact of audit committees and extend the knowledge and skills of audit committee members.

[20 September 2017, London](#); [21 September 2017, York](#)

In house training

In house audit committee training 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.

For further details contact chris.o'neill@cipfa.org or email diana.melville@cipfa.org or visit the CIPFA website where we have a [brochure](#) to download outlining our services for audit committees.

Need some help in improving your committee?

As a BGF subscriber you have access to all the previous issues of Audit Committee Update listed on pages two and three. The CIPFA publication *Audit Committees: Practical Guidance for Local Authorities and Police* also contains resources to help you assess and improve your committee. Audit committee training and facilitation is also available.

Changes to the Public Sector Internal Audit Standards

The [Public Sector Internal Audit Standards](#) (PSIAS) were updated in April 2017 following the consultation earlier in the year. The standards are mandatory for internal audit in the public services, including local government, health and central government. The update reflects the changes made to the *International Professional Practices Framework* (IPPF) of the Global Institute of Internal Auditors on which the PSIAS is based. In addition, amendments were made to the public sector requirements and public sector interpretations which form part of the PSIAS.

As the standards are mandatory your internal audit team should now be working to them and making any changes required to their local practices. It would be expected that the Internal Audit Charter would be updated to reflect the new standards and brought to the audit committee for approval.

Roles beyond internal auditing

One area of significant change is the introduction of a new standard: *1112 Chief Audit Executive Roles Beyond Internal Auditing*. If the head of internal audit (referred to as the chief audit executive in the standards) takes on roles or responsibilities that fall outside of internal auditing, then safeguards must be put in place to limit impairments to independence or objectivity. The head of internal audit must highlight any actual or perceived impairment to the board or audit committee and safeguards should be considered to protect internal audit independence.

CIPFA welcomes this addition to the standards as it takes account of a trend for heads of internal audit to have other responsibilities. For example, some heads of internal audit are also responsible for risk management or corporate counter fraud. Audit committees should note that the standards **do not** say that a head of internal audit cannot have responsibility for other functions, but they rightly emphasise the importance of internal audit independence and the need to ensure it is safeguarded. It is vital that this principle is considered locally and the head of internal audit is adequately supported to meet professional requirements. The audit committee should exercise its responsibility for oversight of internal audit and support internal audit's ability to meet professional standards.

Planning for external quality assessments

Local authorities have until 31 March 2018 to complete their external quality assessment (EQA) in compliance with the PSIAS. The standards require an external assessment to test conformance with the standards at least once every five years. Since the PSIAS were introduced on 1 April 2013, the five-year period will end soon. The assessment can be delivered in several ways, including the external validation of a self-assessment, having a peer review or using an external assessor. There are a range of providers of EQAs, including CIPFA and more information is available on the [CIPFA website](#).

Further details of the audit committee role in supporting the assessment can be found in [Issue 21 of Audit Committee Update](#). The 2017 update to PSIAS now requires that the chief audit executive communicate the results to senior management and the board, which in most cases means the audit committee, and include them in the annual report.

Audit committees should also be aware that the EQA should be based on the PSIAS, not the IPPF (which tends to be used in the private sector in the UK) and for local government it should also include requirements set out in the [Local Government Application Note](#) published by CIPFA. If your internal audit service is provided by a contractor or shared www.cipfa.org/services/networks/better-governance-forum

service then you should ensure that their EQA covers the client relationship with you. Further guidance on this is available from the [Internal Audit Standards Advisory Board](#).

The ultimate goal of professional standards is to ensure a consistent high quality internal audit service. By supporting internal audit to comply with the standards means that the audit committee will be able to confidently rely on the work of internal audit and its work will have greater credibility within the organisation.

Key Questions to Ask	
1	Does the head of internal audit undertake any roles beyond internal auditing?
2	If so, what does this mean for the independence or objectivity of internal audit?
3	Are safeguards needed and what would be appropriate?
4	What is the current position of our EQA? Did it/will it include both the PSIAS and the Local Government Application Note (applicable for local government bodies only) and cover the client relationship?
5	Is the audit committee doing enough to support internal audit in meeting professional standards?

Diana Melville

Governance Advisor

Brexit, the Public Services and the Audit Committee

The implementation of Brexit is likely to have a significant impact on the public services. As we enter a period of negotiations the final deal won't be known for some time, but it is likely that the impact will be felt well before then. Partly this will be a consequence of political and economic uncertainty which could start to settle down, but could worsen before it improves.

So what does this have to do with the audit committee? I think it is important that the committee is aware of the areas of potential risk to the organisation and encourages and supports a pragmatic approach to risk management and contingency planning. Some of the agenda items of the audit committee may include these risk areas, so it is important for the audit committee member to have an understanding of the context. Not every organisation will have the same set of risks. Factors such as the local economy, local labour market and local key employers will make a difference.

Has your organisation already identified any risks and opportunities? And is it taking steps to monitor and manage those risks?

CIPFA has founded [The Brexit Advisory Commission for Public Services](#) to examine the risks and consequences for the public services and its work will help public bodies develop their understanding of the risks.

The following may be a helpful starting point for your local risk assessment.

Potential Risk Area	Potential Impact on a Public Service Organisation
Public finances Overall national economic performance will impact on tax revenue, and may have consequences for funding for public services, either positively or negatively.	Different parts of the public sector have varying degrees of reliance on public funding, however, any change to grants or funding levels will have an impact on service provision.
National economic trends Fluctuations in the exchange rate, particularly the dollar which affects fuel prices and the euro if this is important for your supply chain.	If the exchange rate worsens against the dollar this will make fuel more expensive, impacting on running costs. Some aspects of the supply chain may also be impacted if imported goods are a significant cost.
Workforce and students New rules on immigration may restrict availability of eligible applicants Potential to recruit employees from EU states and other countries outside the EU may be reduced if the UK is seen as less attractive because of an unfavourable exchange rate or	Some sectors have been identified as being highly reliant on international staff, for example the NHS and social care providers. Universities may also be impacted by reduced EU and international students and appointment of academic staff. There is the potential for reduced pressure

<p>negative publicity.</p>	<p>on local services such as school places or housing if immigration reduces.</p>
<p>Local economy and key employers</p> <p>Impact of Brexit on the local economy will vary according to sector and area. This is a complex factor that needs to be looked at locally.</p>	<p>The strength of the local economy has implications for local generation of income and collection of business rates.</p> <p>Local employment rates and wage levels will impact on demand-led public services such as payment of benefits, social housing demand etc.</p>
<p>Availability of funding for investment or regeneration</p> <p>Local areas or schemes that have previously received EU funding will need to establish the likelihood of replacement UK funding.</p>	<p>Some continuity of funding has been guaranteed by the government but there remains uncertainty. For example, the Local Government Association (LGA) has recently called for £8.4bn of EU funding to be replaced after Brexit to support investment in local growth. Organisations in receipt of or anticipating EU funding will need certainty over future funding.</p>
<p>Policy changes</p> <p>In the short term there is unlikely to be any significant change but longer term could bring changes to environmental policy or regulations affecting employment or procurement.</p>	<p>Future policy changes may present opportunities to deliver services in a different way or to reduce regulatory requirements. Implementing significant changes may have consequences, for example additional resources may be needed to reconfigure services and supporting processes.</p>
<p>Government priorities</p> <p>There are a range of other pressing issues for public services, including affordable housing supply, funding of social care and security. The government's ability to adequately address these issues while pursuing the Brexit negotiations will also have consequences for public services.</p>	<p>If legislation or reform of other policy matters is delayed then there may be consequences for the delivery of services and achievement of objectives.</p>

Once a risk assessment has been completed, organisations should plan mitigations or contingencies where appropriate and practical. As new information is received it is likely that the risk assessment and plans will need to be updated. The audit committee may also seek assurances on how effectively any significant risks are being monitored and managed.

For further information on The Brexit Advisory Commission for Public Services please visit [the website](#).

Recent Developments You May Need to Know About

Legislation and Consultations

Data Protection Bill – Statement of Intent

The government has published a Statement of Intent setting out its vision for the digital economy and its planned data protection reforms. The bill will bring the provisions of the General Data Protection Regulation into UK law from May 2018. Key changes for public bodies include the requirement to have a nominated data protection officer. Where changes are needed to meet the requirements the audit committee could support the implementation work and monitor key actions.

[Department for Digital, Culture, Media & Sport](#)

Reports, Recommendations and Guidance

Annual governance statements 2016/17

The latest date for approval of the annual government statement for local government bodies is 30 September. The statements are the first to reflect the new *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016) and the new principles of good governance. The previous [Issue of Audit Committee Update](#) contained an article about developing an effective statement so audit committee members are recommended to review this when considering their statement.

One question that regularly comes up is whether the statement needs to be updated if new information comes to light after 31 March of the year in question. The guidance is that the statement should be up to date at the time of publication, so a significant governance issue that comes to light between 1 April and the final date of publication should be considered for inclusion in the statement.

[Delivering Good Governance in Local Government: Framework](#)

External audit appointments

Public Sector Audit Appointments (PSAA) has announced the results of the procurement exercise for external auditors of local authority, police and fire bodies. A number of contracts have been awarded and PSAA is now working on the allocation of auditors to specific clients. One of the key criteria is to avoid any conflicts of interest. PSAA plans to consult clients on its proposals before finalising appointments by 31 December 2017. Audit committees should contribute to the consultation process for their organisation. Details of fees will not be known until March when PSAA launches its consultation.

[Public Sector Audit Appointments](#)

External audit contract and quality monitoring

PSAA is responsible for monitoring the current audit contracts and publishes an annual report on the results of its work. The *Regulatory Compliance and Quality Review Programme* report for 2017 is now available. Overall the compliance and contract monitoring rating is 'amber' using a red, amber, green scale. PSAA draws on the quality review work of the Financial Reporting Council and highlights relevant areas for improvement. Audit committees should be aware that one of the areas for improvement is that external auditors should report more thoroughly to audit committees. PSAA also publishes reports for each external audit firm. More detail about the audit committee role in monitoring external audit is contained in [Issue 14 of Audit Committee Update](#). [Public Sector Audit Appointments](#)

Reports on the results of external auditors' work

PSAA also publishes an annual report drawing together the results from external audit opinion, one for health bodies and one for local government bodies. The report for health audits concluded for 2016/17 is now available, the local government report will be available later in the year. None of the trusts had a qualified true and fair opinion on the financial statements, but 19% had an adverse conclusion on their value for money arrangements.

[Public Sector Audit Appointments](#)

Scrutiny of treasury management

The Centre for Public Scrutiny (CfPS) has published a second edition of *Treasure Your Assets*. This guidance covers the basics of treasury management and explores the scrutiny role that is a requirement of CIPFA's [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (2011). Audit committees may sometimes undertake the scrutiny role in relation to treasury management. If this is the case then this publication will be useful in understanding more about this complex area.

[Centre for Public Scrutiny](#)

How well does scrutiny work? Scrutiny Self-evaluation Framework

As part of the annual governance review process it is helpful to consider the effectiveness of the scrutiny process. Good scrutiny is one of the contributors to good governance and the absence of effective internal challenge has been a contributing factor to governance failures. The CfPS has developed a self-evaluation framework to support improvement and it can inform the annual governance statement.

[Centre for Public Scrutiny](#)

Look Out For

Guidance for audit committees

CIPFA is currently updating the 2013 edition of *Audit Committees: Practical Guidance for Local Authorities and Police*. The new edition will reflect legislative changes and recent updates to governance and internal audit standards. Some of the key changes include:

- audit committees for combined authorities
- external audit appointments
- *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace, 2016)
- *Public Sector Internal Audit Standards* (2017)
- developments in good practice for audit committees to monitor and support external audit ethical standards.

The publication is due to be published in November 2017. Further details are available from [CIPFA](#).

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