

CIPFA Better Governance Forum

Audit Committee Update

Helping Audit Committees to Be Effective

Issue 32

**COVID-19 Pandemic – Key Issues for the Audit Committee
Regular Briefing on New Developments**

June 2020

Introduction

Dear audit committee member,

This is a difficult time for the whole of the UK, and in order for local government to play its part effectively leadership, good governance and public financial management are essential.

In the latest issue of Audit Committee Update, we address the impact of the COVID-19 pandemic on local government from the perspective of the audit committee. We look at the impact on core responsibilities of the committee and how they are being impacted. We also consider some of the wider impacts on local government and address how the audit committee might consider them.

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

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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 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.

Principal Content	Link
Issues from 2010 and 2011- the content in these issues has been replaced by more recent issues.	
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
Issue 12 – the content in this issue has been replaced by more recent issues.	
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act	Issue 13
Issues 14 and 15 – the content in these issues has been replaced by more recent issues.	
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
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors	Issue 19
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The Audit Committee and Internal Audit Quality	Issue 21
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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
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CIPFA Position Statement on Audit Committees in Local Authorities and Police 2018	Issue 26
Issues from 2019	
Focus on Local Audit National Audit Office Report: 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

Workshops and training for audit committee members in 2020 from CIPFA

Webinar – Special councillor conference: Understanding the impact of COVID-19 on your council

- [11 June](#)

Webinar – Update for local authority audit committee members

The impact of COVID-19 on the annual governance statement and internal audit.

- [24 June](#)

Webinar – Councillors' guide to understanding your council's financial reporting requirements

Training for audit committee members in understanding and reviewing the financial statements of their authority.

- [7 July](#)
- [8 September](#)

We hope to run the following events face to face but if this proves to be impossible then we will deliver them by webinar.

Introduction to the knowledge and skills of the audit committee

This training event will provide more in-depth knowledge of the core areas of an audit committee's functions, including risk management, assurance planning and improving the effectiveness of the committee.

- Wednesday 16 September, London
- Thursday 17 September, York
- Tuesday 29 September, Manchester

Development day for 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 and Fire Network.

- Wednesday 30 September, London
- Thursday 1 October, York

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, internal audit developments and other key topics.

- Wednesday 2 December, London
- Wednesday 16 December, York

Other dates in late 2020 or early 2021 will be announced later in the year.

CIPFA events information and dates will be available on the [website](#) in due course.

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

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

Focus on COVID-19

Local government's response to the COVID-19 pandemic

Local government has played a significant role in response to the pandemic, including critical areas such as social care, policing, homelessness and grants and reliefs to local businesses, as well as emergency response and local coordination of volunteers. The aim of this briefing is not to attempt to capture the full range of activities, but to focus on key areas that fall within the remit of the audit committee.

Focus on financial resilience risks

It is not the role of the audit committee to manage risks, but they should understand the significant and strategic risks their organisation is facing. Many local authorities are signalling that their response to the pandemic is augmenting the financial pressures they are facing. For each authority there will be differences according to their service obligations and their financial resilience prior to the start of the pandemic. The following list highlights the main factors, but there may be additional local issues too:

- additional expenditure on critical service areas such as social care or homelessness and purchase of protective equipment
- loss of income from income generation activities (car parking revenue, income from leisure activities such as leisure centres and theatres, other commercial operations)
- delays in receipt of income from fees and charges (eg planning fees, licences, deferral of council tax instalments or non-payment of rent or business rates)
- longer-term risks around a downturn in local business activity, investment and economic development
- reduced return on investments following the reduction in interest rates
- impact of interruption to the property market
- delays in the implementation of savings programmes which are required to balance the budget in the current financial year
- supply chain risks and concern about the failure of key suppliers or partners.

The impact of these risks have lead some chief financial officers (CFOs) to raise concerns about their organisation's ability to achieve their budget for 2020/21. This was acknowledged in evidence presented to the [Housing, Communities and Local Government inquiry](#). Section 114 of the Local Government Finance Act 1988 (and Section 108 of the Local Government (Scotland) Act 1973 and Section 93(3) of the Local Government Finance Act 1992 for Scottish authorities) requires the CFO to inform the authority where they believe that the authority's expenditure is likely to exceed available resources. The authority is prevented from entering into any agreements incurring expenditure until the council has considered the report. The [CIPFA Statement on the Role of the Chief Financial Officer in Local Government](#) explains this responsibility in more detail. CIPFA will be publishing additional guidance on this area shortly.

It would normally be expected that detailed financial scrutiny of performance against the authority's budget would be carried out by the appropriate scrutiny mechanism. Scrutiny would also play its role in reviewing changes to the policies and priorities of the authority. The audit committee should be made aware of the risks and how they are being managed. In particular the audit committee will focus on any changes to internal controls and financial governance that are taken to enable the authority to manage its resources more effectively. These issues are also likely to feature in the narrative report that will form part of the financial statements which will come before the audit committee for review. See the latest [CIPFA Bulletin](#) for the guidance on narrative reports.

Key questions for audit committee members	
1	How significant are the risks to our financial resilience in 2020/21?
2	To what extent has the authority received funds or commitments that will mitigate the risk of a shortfall against the budget in 2020/21?

Focus on the preparation of the financial statements for 2019/20

The timing of the disruption from the pandemic has been keenly felt by those responsible for the preparation of the financial statements. Apart from the disruption to normal working arrangements or sickness absence of key staff, critical processes for the financial statements cannot be easily undertaken. For example, valuations of assets may not have been completed by 31 March, valuers may not be able to access properties to complete the work and valuations may have changed significantly at the year-end. Other examples where accounting judgements may have to be amended are included in the [CIPFA Bulletin](#).

This situation has raised a number of concerns: the completion of the financial statements for audit could be delayed or if supporting evidence for the accounts is inadequate then a modified audit opinion could result. The audit committee will need to understand the impact when they come to review the financial statements prior to approval.

Changes have been made to the timetable for the completion of draft statements and audit for local government bodies in the UK. Further details are set out later in this issue.

Key questions for audit committee members	
1	What is the impact on resources needed for the preparation of the financial statements?
2	How have accounting judgements in the accounts been affected?

Focus on governance and the annual governance statement

One immediate impact of lockdown and social distancing arrangements was the inability of local authorities to hold committee meetings that met the legal requirements. This has now been remedied by the implementation of [the Local Authorities and Police and Crime Panels \(Coronavirus\) \(Flexibility of Local Authority and Police and Crime Panel Meetings\) \(England and Wales\) Regulations 2020](#) and [The Local Authorities \(Coronavirus\) \(Meetings\) \(Wales\) Regulations 2020](#). It should now be possible for decision making to take place in accordance with normal governance structures and delegations. The Association of Democratic Services Officers (ADSO) and Lawyers in Local Government (LLG) have produced model procedure rules and a protocol for the management of remote meetings.

The CIPFA Better Governance Forum has issued a briefing on how local government bodies should consider the impact of COVID-19 within their annual governance statement for 2019/20. The briefing can be downloaded from the [CIPFA website](#).

Key questions for audit committee members	
1	Are we satisfied that adequate arrangements are now in place to ensure appropriate decision making, scrutiny and accountability?
2	How has the annual review of governance been affected by operational changes?
3	Does the Annual Governance Statement recognise the impact on our governance of Covid-19?

Focus on internal audit

One key role for the audit committee is to have oversight of internal audit's adherence to professional standards. The work of internal auditors has inevitably been impacted by the change to homeworking, reprioritisation of planned audit work and even diversion of internal audit staff to other business critical activities. Guidance to heads of internal audit has been issued by the Internal Audit Standards Advisory Board. CIPFA is a member of the board in its role as one of the standard setters that mandate the Public Sector Internal Audit Standards (PSIAS).

[The full briefing is available here](#). In summary the head of internal audit should advise the audit committee of the impact being experienced by internal audit and how professional standards are being maintained. The audit committee has an important role to play in

providing support to the internal audit service particularly around audit resourcing and safeguards for auditor independence.

The head of internal audit would usually present the annual opinion to the committee at this time of year. Completing audits from 2019/20 will have been particularly challenging for the audit team in March and April. As a result the annual opinion may be delayed or may include some limitations of scope.

Key questions for audit committee members	
1	How is internal audit being affected by COVID-19? In particular how are the following impacted: <ul style="list-style-type: none">• resourcing• audit plans• independence.
2	How has the assurance provided by the head of audit's annual opinion for 2019/20 been affected?

Looking ahead for the audit committee

As well as responding to the key areas identified above, audit committee members should give some thought to how their own work programme might change over the next few months in response to new areas of risk and the need for assurance. This will enable the committee to have productive discussions with officers over their work plans and priorities.

Some areas to consider are:

- What does the committee need assurance on?
- How is the internal audit plan for 2020/21 changing?
- How effectively are our risk management arrangements capturing, reporting and escalating changes in risks throughout the organisation?
- What new fraud risks have emerged and do we have plans in place to mitigate them?
- How are external auditors planning their audit? Will there be changes to the timescale or audit approach?

At an appropriate point the authority should consider its own review of its handling of the pandemic and identify lessons learned. There are also likely to be recommendations or learning points from national or sector-wide reviews. Responding to these learning points could be critical if a 'second wave' of COVID-19 is experienced later this year or next year. There could be role for the audit committee in reviewing the outcome, especially if recommendations relate to governance, financial management or internal control.

Further guidance and support relating to covid-19 and its impact is available on the [CIPFA website](#).

Diana Melville
Governance Advisor

Recent developments you may need to know about

Legislation and regulations

Local authority meetings

The [Coronavirus Act 2020](#) enabled the government to issue essential regulations to allow online committee meetings to be held. [The Local Authorities and Police and Crime Panels \(Coronavirus\) \(Flexibility of Local Authority and Police and Crime Panel Meetings\) \(England and Wales\) Regulations 2020](#) provides for committee meetings to be held online with provision for public access and accountability local authorities in England and police and crime panels in England and Wales.

[The Local Authorities \(Coronavirus\) \(Meetings\) \(Wales\) Regulations 2020](#) makes provision for local authority meetings in Wales.

The [Coronavirus \(Scotland\) Act 2020](#) includes provision for the public to be excluded from meetings if there is a real and substantial risk to public health.

Timetables for draft financial statements and publication

England

The [Accounts and Audit \(Coronavirus\) \(Amendment\) Regulations 2020](#) has amended the relevant sections of the [Accounts and Audit Regulations 2015](#) to allow later completion and audit of the draft financial statements and annual governance statement in England. English authorities will need to sign off their draft accounts by **31 August**, instead of 31 May to allow for the public inspection which must happen at the latest at the start of September. Earlier closure and inspection is still possible to allow more flexibility.

The date for final publication of the accounts and AGS has also been put back to **30 November** in England. This is also the target date for the accounts to be audited, although this is not a statutory requirement.

Scotland

A Scottish Government circular, [Local Authority Accounts 2019-20 – COVID-19](#), has provided the option to extend the timetable for the draft accounts and completion of the audit. Authorities must publish a notice to extend before **17 June** and unaudited accounts should be published at the latest by **31 August**. If audited accounts are to be published after 30 September then authorities will need to publish a notice to that effect. Audited accounts should be published no later than **30 November**.

Wales

Local government bodies in Wales have also been advised that they can delay the publication of draft accounts if needed. This will require preparation and certification of draft accounts by **31 August** and publication of final audited accounts by **30 November** for all local government bodies in Wales.

Reports, recommendations and guidance

New Guidance for internal auditors on ensuring Conformance with Standards

The Internal Audit Standards Advisory Board (IASAB) has issued new guidance to internal auditors in the UK public sector on how they can conform with the Public Sector Internal Audit Standards (PSIAS) whilst managing the impact of COVID-19.

Internal auditors should be playing a vital part within their organisations to help protect their organisations and support the wider public interest. Heads of internal audit will need to adjust their plans and priorities and deal with new ways of working. They may face challenges such as diversion of staff to other duties that could result in difficulties in conforming with the

PSIAS. The audit committee should understand the issues and provide oversight and support on professional issues.

The briefing, [Conformance with PSIAS during the coronavirus pandemic](#) can be downloaded from the CIPFA website. There is also a [webinar](#) on this topic to view, featuring the Chair of the IASAB Simon Edge and Diana Melville, CIPFA's representative on the IASAB.

Internal audit engagement opinions

A review undertaken by the CIPFA Internal Audit Special Interest Group considers the case for common definitions and proposes definitions linked to the audit scope. This briefing will help audit committee members understand the meaning of engagement opinions they see on audit reports and help them consider whether the common definitions would be appropriate for them. [Internal Audit Engagement Opinions](#)

Streamlining the accounts

As part of its response to COVID-19 CIPFA proposed changes to the Code of Accounting Practice for 2019/20 that would have reduced the detail of the financial statements for one year only. CIPFA's proposals were considered by the CIPFA/LASAAC board that oversees the Code which includes key regulators and audit representatives. However, the board was not willing to agree to the proposals. Details of CIPFA's response is available in the [press release](#). As a result there are no changes to the 2019/20 Code.

Modified audit opinions during COVID-19 crisis

The Financial Reporting Council has issued [guidance to external auditors](#) on whether (and which type) of modification to the audit opinion might be appropriate if the audit of the statement of accounts is affected by COVID-19 issues. The guidance is generally applicable to audits across the UK not just local audit.

Supply sustainability in the local audit market

Public Sector Audit Appointments commissioned a study of the local audit market, [Future supply sustainability in the local audit market](#) to look at the long-term issues impacting on suppliers of local audit. The report concludes that the sustainability of audit supply will be difficult to achieve and will depend to a great extent on factors that are outside PSAA's control.

PSAA Quality of Audit Service feedback survey

PSAA carried out a survey to obtain feedback from CFOs and audit committee chairs on the conduct of local audits. The survey covered areas such as expertise, communication and timeliness. It includes the reporting and liaison with the audit committee. The results are broken down by the firms providing local audits in England: [Quality of Audit Service feedback](#).

Public standards in England: 25 years since the creation of CSPL

The [report from the Committee on Standards in Public Life](#) (CSPL) provides an overview of the standards landscape effective in the central and local government and administration of the UK.

Fighting fraud and corruption locally

An update of the strategy for local authorities: [Fighting Fraud and Corruption Locally Strategy 2020](#).

Perspectives on fraud: insights from local government

An in-depth look at fraud from professionals within UK local authorities – from counter fraud professionals to heads of service delivery. The report [Perspectives on fraud](#) was commissioned by CIPFA and explores perceptions of fraud.

Coronavirus (COVID-19): guidance for local government

This web page includes the guidance and updates from government to local government. It includes details of funding allocations, service-specific guidance and other relevant updates: [Ministry of Housing Communities and Local Government](#).

Departmental overview local authorities

[Briefing](#) from the National Audit Office (NAO) on the structure of local authorities, recent NAO reports on the sector (including local authority governance) and current issues.

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