

Audit Committee Update

Helping audit committees to be effective

Issue 34

March 2021

The annual governance statement for 2020/21

Local auditors and internal audit working together

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 annual governance statements for 2020/21 that takes into account the impact of the pandemic and the implementation during the year of the CIPFA Financial Management Code. There is also a copy of a recent article on understanding the different roles and responsibilities of internal audit and external audit. We know that is an area that some audit committee members find difficult if they have had no prior experience of dealing with auditors.

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.

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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) 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.

Webinars and training for audit committee members in 2021 from CIPFA

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:

- 22 and 23 June (morning only)
- 8 and 9 September (morning only)

Introduction to the Knowledge and Skills of the Police Audit Committee

Provisional dates for this are:

- 15 and 16 September (morning only)

Update for Local Authority Audit Committee Members

This webinar will provide an update for local authority audit committee members on the annual governance statement for 2020/21. Provisional date July 2021.

Full programme details and booking information for webinars 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, webinars and guidance tailored to your needs are 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 or visit the [CIPFA website](#) for further details on the support we have available for audit committees.

The annual governance statement 2020/21

What the audit committee needs to know

The requirements of the annual governance statement

Each year local government bodies must publish an annual governance statement (AGS) in accordance with the regulations issued by the appropriate government. The statement contains the results of the annual review of the effectiveness of internal control and should be in accordance with Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016).

The Framework and core requirements for the AGS have not changed. Earlier issues of [Audit Committee Update](#) have addressed the audit committee role in reviewing the AGS for their organisation and highlighted good practice. CIPFA has issued additional guidance for the 2020/21 AGS in [CIPFA Bulletin 06](#).

Issues for 2020/21

The purpose of the new guidance is to consider the impact of COVID-19 on the governance arrangements of local government bodies and how this might be included in the AGS. The impact would vary between different bodies but were likely to include:

- adaptations to reflect new ways of working and emergency arrangements
- changes to 'business as usual' activities, including cessation or reduced frequency or scale of activities
- longer-term changes to priorities, programmes, strategies and plans as a result of the impact of the pandemic on the organisation and the local area.

Over the course of 2020/21 changes would have been made as a reaction to unfolding events rather than planned in advance. For example, a decision might have been made in April 2020 to temporarily suspend or postpone the operation of an internal control, assuming that it could be resumed later in the year. Changing circumstances might have meant that the control did not in fact operate at all. So it is only with the annual review that the true impact on the governance arrangements might become clear.

Some of the impacts may not be significant or there may be alternatives that could be considered sufficient. Where there are significant issues emerging then they may need to be highlighted in the AGS and the action plan should identify the steps that will be taken to address them.

Implementation of the Financial Management Code during 2020/21

A key goal of the Financial Management (FM) Code is to improve the financial resilience of organisations by embedding enhanced standards of financial management. The FM Code is due to be fully implemented in local government bodies in 2021/22 with 2020/21 being described as a shadow year. Given the challenges to financial resilience that many local government bodies have experienced in 2020/21 progress in the implementation of the FM Code is important.

For this reason CIPFA also included with Bulletin 06 a requirement to include an assessment of compliance with the principles of the FM Code. Where there are outstanding matters or areas for improvement these should be included in the AGS action plan.

Timetables for the AGS for 2020/21

For English local government bodies the Ministry of Housing, Communities and Local Government has issued amendments to the Accounts and Audit Regulations 2015. The [Accounts and Audit \(Amendment\) Regulations 2021](#) make changes to the timetables for signature, publication and audit of the statement of accounts and AGS for 2020/21.

The exercise of public rights should take place no later than the first working day of August 2021. This means that authorities have an additional two months to prepare their financial statements and the AGS. The date for publication, which is also the target date for the completion of the external audit, is 30 September. These dates would apply to both the 2020/21 and 2021/22 statements.

All external auditors have had challenges from conducting external audits remotely and in England there have been additional challenges as a result of auditor resource pressures. As a consequence there are likely to be further difficulties experienced in 2021. Each authority will be different but if it is possible to prepare the financial statements and AGS to be ready for audit before 31 July then that might help external audit firms to stagger their workload. From the point of view of supporting better accountability CIPFA does support the principle of earlier publication but also appreciates the unusual circumstances currently being experienced.

Other aspects to consider

The guidance also recognises that some of the usual sources of assurance might not be available or may provide less assurance than in previous years. [Issue 33](#) of Audit Committee Update included an article on the CIPFA guidance about the head of internal audit (HIA) annual opinion. When reviewing the AGS the audit committee should be aware of any limitations of scope on the HIA annual opinion.

Role of the committee

From the audit committee's point of view the review of the AGS is a good opportunity to take stock of governance, risk and control arrangements. The committee should also consider their arrangements in the context of the current challenges facing the organisation and its plans and objectives for the future. This will help to ensure that arrangements can remain fit for purpose.

Key questions for the committee

Questions to discuss with officers leading the annual review of governance.

1. Has it been possible to obtain sufficient assurance to support the conclusion on the adequacy of governance arrangements?
2. What impact has the COVID-19 pandemic had on our governance arrangements?
3. What significant issues are emerging from the review?
4. What are the implications for our governance arrangements in 2021/22?

Diana Melville

Governance Advisor, CIPFA

Local auditors and internal audit working together: myths and reality

This article first appeared in [Public Finance](#).

For those of us with an audit background it is usually pretty clear what our separate roles, objectives and professional standards are. However, we are often asked by clients and audit committees: “What’s the difference between internal and external audit?”

Common assumptions are that auditors can be used interchangeably, with internal auditors helping out the external auditors on the financial statements audit or that an audit undertaken to satisfy the objectives of a financial audit means that there’s no need for an internal auditor to examine that area too. While it is essential that both sets of auditors have a positive and constructive relationship, findings and plans must always be within the framework of their respective professional standards and objectives.

The objectives of internal audit and external audit

While internal and external auditors share an interest in the outputs of each other’s work, fundamentally the two sets of auditors are trying to achieve different things.

Internal auditors provide independent assurance to help improve an organisation’s operations and accomplish its objectives. They focus on the effectiveness of governance, risk management and control arrangements, evaluate them and identify areas for improvement.

External auditors are responsible for issuing an opinion on whether the financial statements present a true and fair view. In local authorities and other areas of the public sector, the auditors also give commentary on the arrangements in place for securing value for money. External auditors have statutory powers such as the issue of public interest reports, statutory recommendations and the requirement to respond to valid objections from local electors.

Professional standards

Each profession has its own set of standards to which they must adhere, developed to meet the differing needs of the auditors.

Internal auditors in the UK public sector work to the Public Sector Internal Audit Standards (PSIAS), which encompass the mandatory elements of the Institute of Internal Auditors International Professional Framework. There are different standard setters for different parts of the public sector and in some cases for the devolved governments. CIPFA is the standard setter for internal audit in UK local government.

External auditors work to the International Standards on Auditing (ISAs) and local auditors operate under the Code of Audit Practice that defines the scope of their work in accordance with the Local Audit and Accountability Act 2014. In England the Code is set by the National Audit Office and approved by Parliament. Audit Wales, Audit Scotland and the Northern Ireland Audit Office also set codes that are approved by the devolved governments. All the national audit bodies use the principles of public audit when developing their codes, which includes a wider scope to comment on aspects of the stewardship of public funds.

Regulation and accountability

If auditors are members of a professional body, there will be responsibilities and disciplinary procedures to hold them accountable. Internal audit’s work should be overseen by the audit

committee and leadership team to whom the head of internal audit will report on performance and professional standing, known as the *Quality Assurance and Improvement Programme*.

External auditors' work is also subject to professional oversight within their firm and externally through the regulatory bodies, including in England the Financial Reporting Council and the ICAEW.

Opportunities for working collaboratively

Can internal auditors and external auditors work together or rely on each other's work? Recent developments such as the challenges in the local audit market and the Redmond Review have focused attention on this as a potential solution. It isn't as simple as that for a number of reasons.

First and foremost, internal auditors have different objectives and undertaking financial statements audit would not help internal audit to achieve those objectives.

Secondly, local auditors can only use the work of internal audit in accordance with ISA 610 (UK). This prohibits local auditors from using internal auditors to provide direct assistance on the financial statements audit.

Thirdly, internal audit teams often have their own resourcing pressures, so the recruitment and retention of skilled auditors is not just a local audit problem.

Where auditors can and should collaborate is the sharing of intelligence and knowledge. The work of internal audit can be used to inform the local auditor's understanding of the organisation, its risks and controls. The internal auditor will want to know of any control weaknesses identified as a result of the financial statements audit, and any associated operational or financial risks.

There is a greater opportunity for either joint working or for the work of internal audit to be used more directly in the area of value for money work. This area of the local audit is not directly carried out under the ISAs but will be shaped by the respective Code of Audit Practice and legislation for the relevant government of the UK. In England the new code for the 2020/21 audits will include a new VfM commentary that will discuss the audited body's arrangements for financial sustainability, governance and maintaining economy, efficiency and effectiveness. Any areas of significant weakness will be identified, and associated recommendations made for management to address.

With stretched resources and the changed dynamics in auditor relationships over the last few years, internal auditors and local auditors may not have talked as often as is desirable. The Redmond Review has recommended that local auditors should recognise that internal audit work can be a key support and the new Code of Audit Practice provides the opportunity for a reset of auditor relationships. CIPFA would like to see all auditors taking this opportunity. A subsequent step will be to engage the leadership team and audit committee so that there is clarity about such plans and how they will work in practice.

Expectations of each other

What does good practice look like? External and internal auditors should meet periodically throughout the year to discuss emerging risks and share their insights. With the new Code of Audit Practice in place for the 2020/21 year, it will be more important than ever that the two audit teams engage to discuss their work plans, emerging findings and whether these align or overlap.

While there are barriers to direct reliance on work from one side to another, both functions provide an independent assessment of, among other areas, an audited body's control environment. Audit committees have a responsibility for oversight of the implementation of actions by management in response to recommendations raised by both internal and external audit. With the increased scope of the VfM work under the revised NAO Code, it is important that messages delivered, while potentially different in focus, are giving consistent feedback to facilitate effective governance.

What would CIPFA like to see?

CIPFA would encourage internal and external auditors to more proactively engage with one another to share information, insights and areas of concern and align recommendations where possible. The audit teams should work together to help audit committee members understand the differences and synergies in their work programmes and encourage effective oversight.

CIPFA is working to produce resources on collaboration between internal and external audit in a local authority context and would welcome any feedback from practitioners of examples of the cornerstones for how effective relationships have been achieved.

Diana Melville and Ellen Millington, CIPFA

Recent developments you may need to know about

Legislation and regulations

The Local Government and Elections (Wales) Act

The [Act](#) received royal assent in January 2021. It 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 Act also contains provisions for the review of council 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 commencement order for these provisions has not been issued yet.

Reports, recommendations and guidance

CIPFA consultation on local government Prudential Code

Changes include adding a focus on sustainability and that borrowing for debt-for-yield investment is not permissible under the Prudential Code, as it does not constitute the primary purpose of investment and represents unnecessary risk to public funds.

[Prudential Code Consultation](#)

There is also new consultation on the Treasury Management Code, comprising an enhanced focus on knowledge and skills and training, including audit committee members undertaking the scrutiny of treasury management.

[Treasury Management Code consultation](#)

Governance risk and resilience

The Centre for Governance and Scrutiny and Localis have developed material to support individual council officers and councillors to play their part in understanding, and acting on, risks to good governance. It provides examples of positive and negative behaviours in the conduct of governance and can be a useful resource to support the annual review underpinning the annual governance statement. [Governance risk and resilience](#)

Financial Resilience Index

CIPFA has published a new tool showing financial resilience indicators for the financial year 2019/20. It is accessible from the CIPFA website and allows individual authorities to be compared against other authority groups. [Financial Resilience Index 2021](#)

Lessons from public interest reports

External audit firm Grant Thornton have published a report drawing lessons from three public interest reports published in the last year. It considers financial sustainability, governance and culture. In particular it includes a section on the role of the audit committee. [Lessons from recent public interest reports](#)

Rapid review reports

Audit committee members are likely to be aware of recent difficulties at the London Borough of Croydon and Nottingham City Council. Rapid review reports have been completed to identify

the causes of their problems and next steps. While these reports reflect factors specific to those councils it is useful for audit committee members to be aware of any 'lessons learned' or risks that could be relevant for their organisation.

[Rapid Review Nottingham](#)

[Rapid Review Croydon](#)

Good practice guidance: Fraud and Error

The report provides an overview of risks and good practice from the National Audit Office's Fraud and Error Audit Framework. [Good Practice: Fraud and Error](#)

Fraud and Corruption Tracker

CIPFA's latest national report estimates that for local authorities in the UK the total value of fraud identified and prevented in 2019/20 is approximately £239.4m. [Fraud and Corruption Tracker](#)

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.

PSAA Annual Report on Audit Quality

Monitoring Report for 2020 covering the work of local auditors appointed by PSAA for the 2018/19 financial year. [Annual Audit Quality Monitoring Report 2020](#)

The NHS external audit market

A paper from the Healthcare Financial Management Association says "We have been told 'the NHS external audit market is broken' by both NHS organisations and auditors themselves."

[NHS external audit market](#)

Good practice in annual reporting February 2021

A good practice resource from the National Audit Office setting out principles for good annual reporting. It provides illustrative examples taken from public sector organisations. [Good practice in annual reports](#)

Local Government in Scotland

Audit Scotland overview reports that COVID-19 will drive large rises in costs and spending, combined with falling income. [Financial Overview 2019/20](#)

Digital progress in local government

Audit Scotland report shows that responding to COVID-19 has increased the pace at which Scotland's 32 councils are delivering services through digital technology. [Digital progress in local government](#)

Local government ethical standards: progress made against best practice recommendations

The Committee on Standards in Public Life has published progress made by local authorities against best practice recommendations made in its report, Local Government Ethical Standards. This appears to show good progress being made. [Summary results](#) are available on their website.

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.	
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
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act	Issue 13
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
CIPFA Survey on Audit Committees 2016	Issue 20
The Audit Committee and Internal Audit Quality	Issue 21
Issues from 2017	
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
Developing an Effective Annual Governance Statement	Issue 25
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
COVID-19 Pandemic – Key Issues for the Audit Committee Regular Briefing on New Developments	Issue 32
The head of Internal audit annual opinion for 2020/21 Update on the Redmond Review	Issue 33

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

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