

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

8 MARCH 2012

PROGRESS ON 2011/12 INTERNAL AUDIT PLAN

Report of the Head of Internal Audit

1.0 PURPOSE OF THE REPORT

- 1.1 To inform Members of the progress made to date in delivering the 2011/12 Internal Audit Plan and any developments likely to impact on the Plan throughout the remainder of the financial year.

2.0 BACKGROUND

- 2.1 Members approved the 2011/12 Audit Plan at their meeting on the 21 April 2011. The total number of planned audit days for 2011/12 was 3,016 (of which 155 related to internal audit services delivered on behalf of the County Council to external clients). The performance target for Veritau is to deliver 93% of the agreed Audit Plan.
- 2.2 This report provides details of how work on the 2011/12 Plan is progressing.

3.0 INTERNAL AUDIT PLAN PROGRESS BY 31 JANUARY 2012

- 3.1 Progress against the agreed performance targets and improvement actions for 2011/12 as at 31 January 2012 is detailed in **Appendix 1**.
- 3.2 **Appendix 2** provides details of all the 2011/12 audits that have been issued as a final report so far this year (excluding schools and other similar establishments). A number of reports have also been issued in relation to special investigations. To date, 18 Priority 1 actions have been agreed with management.

Computer Audit

- 3.3 The 2011/12 IT Audit Plan includes 80 days of specialist IT audit work to be undertaken by PriceWaterhouseCoopers (PwC) in areas identified as high risk to the Council. 1 final report and 2 draft reports have been issued to date. The remaining audits have all been started or timetabled.

Corporate Audits

- 3.4 Corporate audits are important in providing assurance to the County Council that its overall governance and control arrangements remain effective. The scope of each corporate audit is agreed with the relevant lead officer(s) to ensure that Internal Audit resources are focused on key controls and those areas of highest risk.
- 3.5 To date, 7 corporate audit reports have been issued in final. Further details of these audits are provided in a separate report on this agenda.

Contingency and Counter Fraud Work

- 3.6 Veritau auditors continue to handle a number of special investigations and assignments. Such assignments are carried out in response to issues raised by staff or members of the public via the Whistleblower Hotline, or as a result of management raising concerns. Work has also been undertaken to review matches identified through the Audit Commission's data matching exercise, the National Fraud Initiative.
- 3.7 Veritau uses its audit management system Galileo.net for recording the detail of investigations undertaken into alleged fraud, malpractice and corruption. Since the start of the current financial year, 34 cases of suspected malpractice or misappropriation have been referred to Veritau. However, not all of these issues have resulted in further investigation by Veritau as, depending upon the nature of the concerns raised, cases will be referred to Human Resources, Trading Standards, external agencies or to management as appropriate. Veritau investigates only those cases involving suspected fraud, malpractice or misappropriation. Details of these cases will be reported to the Committee following the end of the financial year.

Information Governance

- 3.8 Veritau's Information Governance Team (IGT) continues to handle a significant number of information requests submitted under the Freedom of Information and Data Protection Acts. The number of FOI requests received continues to grow with a total of 782 requests received between 1 April and 31 December 2011 compared with 753 requests received during the corresponding period in 2010 (a 3.9% increase). The IGT is currently exceeding the performance response target of 95% for 2011/12 with 98% of requests so far being answered within the statutory 20 day deadline. The IGT also coordinates the County Council's subject access requests (excluding social care) and has received 70 such requests between 1 April and 31 December compared to 67 requests in the same period last year.
- 3.9 Veritau is also continuing to assist with the development and implementation of the County Council's Information Governance policy framework. Details of the progress which has been made to date were reported to the last meeting of this Committee on 8 December 2011.

Variations to the 2011/12 Audit Plan

- 3.10 All proposed variations to the agreed Audit Plan arising as the result of emerging issues and/or requests from directorates are subject to a Change Control process. Where the variation exceeds 5 days then the change must be authorised by the Client Manager. Any significant variations will then be communicated to the Audit Committee for information.
- 3.11 The following variations has been agreed with management since the last meeting of this Committee:

Changed Priorities

A number of audits will be deferred to 2012/13 or the scope of the planned work will be reduced to reflect new or changed priorities and other current developments in the County Council. A change is also necessary to reflect the agreed early termination of a trainee secondment to Veritau. The time which has been made available has been added to the contingency for special investigations, as follows:

<u>Audit</u>	<u>Directorate / Category</u>	<u>Days +/-</u>	
Waste PFI	BES	-10	Defer to 2012/13
Information Governance Compliance	Corporate	-60	Reduce provision
Recruitment	Corporate	-10	Reduced scope
Performance Indicators	Corporate	-10	Changed approach
Strategic Procurement	Corporate	-30	Defer to 2012/13
Savings Plans	Corporate	-50	Reduced scope
Project Management	Corporate	-20	Defer to 2012/13
Rationalisation of Council systems	Corporate	-10	Defer to 2012/13
Special investigations		+155	
Total		-45	
Reduction in Audit Plan (trainee secondment)		-45	

Emerging Issues

- 3.12 The CIPFA Better Governance Forum has recently issued a briefing paper for Audit Committee members. A copy of the paper is attached as **Appendix 3** for information. The paper invites Audit Committee members to consider whether they are receiving adequate assurance across all the organisation's key areas not just financial risks, and whether other sources of assurance may exist within the organisation which are otherwise being overlooked. The paper also identifies 10 potential risk areas which are likely to have implications for some or all local authorities in 2012.

- 3.13 Following a discussion with the Chairman and Vice Chairman, and depending on the views expressed by Members at the meeting, a proposal will be made to the Committee that is based on the Assurance mapping principle described in the paper.

4.0 **RECOMMENDATIONS**

- 4.1 Members to note the progress made by Veritau Ltd in delivering the 2011/12 Internal Audit Plan.
- 4.2 To consider whether any additional action(s) should be initiated based on the Audit Committee update paper.

Report prepared and presented by Max Thomas, Head of Internal Audit

Max Thomas - Head of Internal Audit (Veritau Limited)
Veritau Limited
County Hall
Northallerton

29 February 2012

Background Documents:

Relevant audit reports kept by Veritau Ltd at 50, South Parade, Northallerton
Contact Roman Pronyszyn, extension 2284

Appendices:

Appendix 1 - Progress against 2011/12 performance targets and improvement actions

Appendix 2 – 2011/12 final audit reports

Appendix 3 – CIPFA Better Governance Forum Briefing paper for Audit Committees (Issue 7 – February 2012)

PROGRESS AGAINST 2011/12 PERFORMANCE TARGETS AS AT 31/1/2012

Performance Targets

<i>Indicator</i>	<i>Milestone</i>	<i>Position at 31/1/2012</i>
To deliver 93% of the agreed Internal Audit Plan.	93% by 30/4/12	66%
To achieve a positive customer satisfaction rating of 95%	95% by 31/3/12	100%
To ensure 95% of Priority 1 recommendations made are agreed.	95% by 31/3/12	100%
To ensure 95% of FOI requests are answered within the Statutory deadline of 20 working days.	95% by 31/3/12	98%

Performance Improvements

<i>Action</i>	<i>Target Date</i>	<i>Position at 31/1/2012</i>
Continue to develop and roll-out the new information governance framework	31/3/12	Ongoing
To undertake audit of compliance with information governance policies	31/3/12	Ongoing
To further develop and implement effective counter fraud measures in line with the actions highlighted in the Veritau Business Plan, with particular reference to issues relating to Health and Adult Services financial assessment and charging matters	31/3/12	Ongoing

FINAL 2011/12 AUDIT REPORTS ISSUED IN THE PERIOD TO 31/1/12

Audit Area	Directorate	Overall Opinion
Contracting - Provider List	H&AS	High
Public Health expenditure return	H&AS	N/A
Trading Standards	BES	Substantial
Winter Maintenance	BES	Moderate
Highways Maintenance Contract 2012 Project	BES	High
Fuel Rebate grant claims (x2)	BES	N/A
Yorkshire Dales Tourist Partnership grant claim	BES	N/A
Emergency Planning	CEG	High
Resourcelink access controls	CEG	N/A
Capital contracts	Contract	High
Information Security compliance checks	Corporate	Limited
Travel and subsistence	Corporate	Limited
Co-op Travel System	Corporate	Moderate
Carbon Reduction Commitment – review of evidence pack	Corporate	N/A
Handling complaints	Corporate	Substantial
Mobile working	Corporate	Moderate
Venue costs	Corporate	Substantial
Special Educational Needs	CYPS	High
Home to School Transport	CYPS	High
The Ghyll Children's Centre	CYPS	High
Nidderdale Resource Centre	CYPS	High
Forest Lane Children's Centre	CYPS	High
Adult Learning – Harrogate Rural	CYPS	High
Adult Learning - Richmondshire	CYPS	High
Adult Learning – Selby	CYPS	High
Adult Learning – Scarborough	CYPS	High
Feeder systems	F&CS	High
Creditors	F&CS	Substantial
Debtors (PCT reconciliation)	F&CS	Moderate
Treasury Management	F&CS	High
NY Pension Fund – Income	F&CS	High
NY Pension Fund – Expenditure	F&CS	High

In addition to those reports detailed above, Veritau had completed the audits of 36 primary schools, 13 secondary schools, 6 sixth forms and 30 private/voluntary nurseries by 31 January 2012. Only three of these audits has resulted in an audit opinion of less than Moderate Assurance (One nursery and two primary schools have been assessed as Limited Assurance).

Better Governance Forum briefing paper

Audit Committee Update

-helping audit committees to be effective

Issue 7

- Assurance Planning
- Risk Outlook for 2012
- Government Response to the Future of Local Public Audit consultation

February 2012

Introduction

Dear Audit Committee Member,

Welcome to Issue 7 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 includes an article explaining the issues around planning assurance and use of 'assurance maps'. As an audit committee you rely on assurances from a number of sources and it makes sense to make sure that you get what you need in the most efficient way possible.

2012 looks set to be another challenging year for the public services and we've highlighted 10 topical risk areas that might be relevant for your organisation. Knowing the risks is one thing, but we've tried to highlight how the audit committee can add value and have impact in these areas.

We have also included an article outlining the Government's proposals for changing local public audit arrangements. Further work will be carried out on the proposals in 2012 and audit committees will want to monitor the likely impact on their authority.

I hope you will find this issue helpful. If you have missed earlier issues they are available directly from our website. [Previous issues](#).

We welcome feedback on these briefings and suggestions for future topics. Please let us know if we are getting them right.

Best wishes

Diana Melville
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Receive our briefings directly:

This briefing will be sent to all key contacts of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be forwarded to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website. This will give you access to governance material, guidance documents and you can receive these briefings directly.

Visit our website www.cipfanetworks.net/governance or [register](#) today.

Workshops and training for audit committee members in 2012

The Influential Audit Committee

This new audit committee workshop will address how the audit committee can improve its influence and impact on good governance. Featuring sessions on assurance planning, effective public reporting, improving accountability and evaluating the provision of audit services, the workshop will offer opportunities for discussion, self-evaluation and networking with other public sector audit committee members.

21st March London, 29th March Manchester, 18th July Birmingham, 4th October Edinburgh
Further dates & locations will be available in 2013.

<http://www.cipfanetworks.net/governance/events/>

Advanced Audit Committees

Have you cracked the basics? This workshop examines the audit committee role in strategic risk management, value for money, counter fraud and treasury management.

22nd March Edinburgh

<http://www.cipfanetworks.net/governance/events/>

25th April London, 16th May Leeds

<http://www.cipfanetworks.net/training/events/#3>

Effective Audit Committees

Key features of an effective audit committee, including the role of the chair, role in the governance framework and working with your auditors.

9th February London, 15th March Leeds

<http://www.cipfanetworks.net/training/events/#3>

Essential Skills for Board Members

The role of a board member in a public sector body, featuring sessions on corporate governance, decision making, accountability and evaluating board performance.

27th March London, 12th June London

<http://www.cipfanetworks.net/training/events/#3>

CIPFA Annual Audit Conference

Strategic issues and professional briefings affecting audit in the public services.

23rd and 24th May, Nottingham

In-house training

In house training for any of the events shown above or tailored to your needs is available. For further details contact <http://www.cipfanetworks.net/training/> or email Diana.Melville@cipfa.org.uk

Risk assurance and assurance mapping – make sure you mind the gap!

In August 2011 the CIPFA Better Governance Forum and Audit Panel published a [survey on Audit Committee practices](#) in local government. The survey established that each year 99% of Councils looked at Annual Governance Statements (outside of Scotland, where this is not a requirement); and 99% annually reviewed Internal Audit reports. However, only 77% of the audit committee reviewed the risk assessments of (key) strategic risks.

The significant difference in reviewing such risks may simply reflect the context of each council, but it may also suggest that some audit committees need to improve their oversight of such risks. After all, numerous surveys have concluded that the greatest source of major risk surprises derives from the mismanagement of strategic risks.

This article explores the best practices of Risk Assurance, Assurance Frameworks and Assurance Mapping to support audit committee oversight of key risks; building on the [CIPFA Audit Committee Update](#) article on strategic risk management in January 2011.

Starting with the foundations: The Audit Committee role and Risk Assurance

CIPFA outlines three key areas in relation to the oversight of risks by audit committees, specifically that they should:

- “Consider the effectiveness of the authority’s risk management arrangements..”
- “Seek assurances that action is being taken on risk-related issues..”
- [ensure]... the Statement on Internal Control, properly reflects the risk environment..”

Risk assurance addresses how to get a solid and up to date sense of whether risk management processes in general, and specific key risks in particular, are being managed effectively. When we look back at the many risk and governance issues in the past, including the recent financial crisis, the importance of robust risk assurance becomes self-evident. This links to the inevitable fact that whilst organisations try hard to deliver objectives and manage risks, it can be easy for them to underestimate problem areas.

Assurances from External Audit

Independent assurance in relation to financial accounting and reporting principally comes from external audit. That said, even external audit assurances have their limitations (as the Enron collapse and recent financial crisis have revealed) and this, combined with the likely changes to public sector external audit, highlights the importance of obtaining assurance regarding external audit independence, adherence to quality standards, and also being clear about the focus and depth of the work being done. Some organisations use internal audit to carry-out assignments to complement external audit’s work, often in order to save costs, but many heads of internal audit have told me that doing this often reduces their ability to work on other areas of risk, where far greater (but sometimes less obvious) threats lie.

Assurances from Internal Audit and Internal Audit Quality Assessments

The next key source of assurance that audit committees rely on comes from internal audit. Audit committees need assurance that internal audit work is of a high standard. In local government it is a statutory requirement that there is an annual review of the effectiveness of internal audit. In addition professional auditing standards require regular quality reviews. Reviewing assurances on the quality and effectiveness of internal audit is a key responsibility of the audit committee.

Validating the Internal Audit plan

¹ Audit Committees, practical guidance for local authorities, CIPFA 2005

Reviewing the internal audit plan is a very important responsibility for audit committees and many heads of internal audit tell me they would like greater audit committee engagement; particularly so there is a greater understanding of what work has and has not underpinned their overall audit opinion, or assurances in support of any Annual Governance Statement.

CIPFA's [Audit Committee Update](#) in January 2010 also discusses the importance of the audit plan, and concludes with three important questions, discussed further, below:

- How does the internal audit plan link to the key risk register?
- What audits have been left off the plan and why?
- How does the plan fit with other assurance work?

How does the internal audit plan link to the key risk register?

In 2011 I surveyed over 30 heads of internal audit about the way they generated the "audit universe" upon which their plans were based. 80% said that currently their plans were mostly based on lists of processes, systems, departments and/or locations. Whilst this approach has its merits, it could easily miss key organisational objectives and risks upon which the council's success is likely to depend. In the light of this, around 65% of the heads of internal audit surveyed felt that their future plans needed to be more closely aligned to the organisation's key objectives and risks. Thus audit committees and heads of internal audit would be advised to ask themselves whether internal audit's plans are truly linked to their organisation's key objectives and risks by considering how many of the key risks have been audited over the past 2-3 years, to what depth, and the rationale for those areas not being audited.

What audits have been left off the plan and why? How does the plan fit with other assurance work?

It is common to find that a number of key objectives and risks have not been included on internal audit's plan over a series of years. Possible explanations could be: i) these risks have been discussed at the audit committee or board level; ii) with resource constraints internal audit is unable to address these areas and iii) internal audit probably doesn't have the skills to do these audits either. Whilst these observations may have some merit, they are increasingly being called into question, for example: audit committee and board discussion may help to clarify the nature of risks facing the organisation, but is unlikely to reveal weaknesses in specific processes and controls in relation to these risks, in the way that an internal audit would.

Thus when there are gaps in internal audit's coverage of key risks, audit committees should ask internal audit to work with senior management to set out an Assurance Framework, underpinned by an Assurance Map (A-Map) of key risks, setting out:

- How have line management accountabilities for each risk been formally documented;
- Whether key performance indicators (KPIs) have been agreed in relation to the risk area, and establish how often these are reviewed by more senior levels of management to ensure the area is properly under control;
- Whether any oversight functions (e.g. legal, HR, Finance, IT, health & safety or environmental compliance) are already monitoring (or even auditing) the risk and if so, to what level of rigour?
- Has internal audit ever looked at this risk in the past?

Clarifying the assurance framework and preparing an A-Map provides a structured way of deciding what risk assurance is already in place and what additional assurance is needed, which may not always need to be an internal audit. For example, an A-Map for a major project may show that project management accountabilities have been established and KPIs agreed, but also show there is little independent assurance of the project. Where this is the case, the assurance choices range from asking the project manager to update the audit committee on how risks are being managed, to asking for independent assurance from a project management expert (particularly if very technical issues are critical), or to ask for an audit or review by internal audit. The importance of risk assurance in relation to key projects becomes all the more obvious when we reflect on the various studies that have shown that 40+% of major projects failed to deliver either to time, to budget or to the original specification.

In relation to other risk areas such as: regulatory compliance, IT security, or safety, health and environment, there may be specialist functions that have (or could have) a risk oversight role. Consequently, as an alternative to requesting an internal audit of the area, another option could be to invite a representative from the relevant oversight function (e.g. Legal, IT) to present to the board or audit committee how the risk is being managed. Seeking direct assurance from line management, or other oversight functions, allows the audit committee to make the most of existing resources, thereby enabling internal audit's efforts to be focussed on other risk areas. Obtaining direct assurance can also provide valuable information that can be used to focus any subsequent internal audit on the areas of greatest risk.

The benefits of Assurance frameworks and Assurance Mapping

It should be clear that having an assurance framework, and preparing A-Maps can be invaluable when assessing the internal audit plan, and rationalising the areas internal audit should and should not be auditing. In addition A-Maps have the benefit of confirming existing arrangements or revealing gaps or overlaps in assurance: the latter being very helpful in these resource constrained times.

Stepping up requests for direct assurances from specialist functions to the audit committee usually helps to reinforce the importance of the risk assurance role of these functions over and above their role of day-to-day task delivery, helping to reduce the risk of unpleasant surprises. Heads of internal audit regularly tell me how important it is to make this change: "Some functions think they have done their job by simply developing policies and publishing these on the intranet, leaving the rest of the organisation to get on with it. They need to be more proactive than this if key risks are to be properly managed and audit committees and senior managers can play a key role in highlighting this by requesting direct assurance".

Working on an assurance framework and using A-Maps will typically reveal opportunities for clarifying the accountabilities for risk management and assurance in certain areas. Thus when audit committee members or senior managers hear the response: "It's everyone's job to manage that risk", an A-Map will often demonstrate whether this is in fact the case. It is not at all uncommon to find out that: "it's everyone's job", actually means "it's no one's job".

A-Maps can also provide the means to clarify, rationalise and consolidate multiple assurance inputs (e.g. from IT security, compliance, legal, health & safety, finance, internal and external audit) into a one concise assurance report, something many audit committees and senior managers would like, to reduce the burden of paperwork they need to read.

Assurance Frameworks and Assurance Maps: Practical considerations

Audit committees should not expect internal audit to develop an assurance framework or A-Map without significant line management support and involvement. This will speed up the information gathering and validation stages, and prove to be invaluable when agreeing and implementing actions needed to deliver benefits (e.g. determining how to address any assurance gaps or overlaps, or how to amend the format, content and frequency of assurance reporting).

Audit committees should not expect A-Maps for all key risks to be prepared in one go in a short timescale, since the typical results from such an exercise tend to be relatively superficial (even flawed in some instances) and also deliver limited benefits. My advice to heads of internal audit and audit committees is to request A-Maps for one or two areas key areas first (e.g. key projects, compliance and finance) and then to extend these based on what emerges, and where the greatest benefit/value is likely to be found.

Conclusion

My work with public sector heads of internal audit last year has highlighted an increasing sense of internal audit functions being stretched very thinly. The best functions are being proactive about this, exploring ways to be more efficient (through lean techniques and/or shared service arrangements), as well as by starting to engage their key stakeholders

regarding the range of assurance sources within the organisation beyond just internal audit and external audit. Hopefully the use of assurance frameworks and A-Maps will increasingly be seen to be a key way to deliver more with less. To sum up the views of numerous heads of internal audit: “we have to try our utmost to manage risks effectively before things go wrong, making it important to have reliable real-time risk assurances. With current resource constraints such assurances need to come from a range of sources, allowing internal audit to focus on the most critical areas”.

James Paterson

About the author: James Paterson is the Director of Risk & Assurance Insights Ltd. He works as a consultant, facilitator, coach, trainer and author. He specialises in risk management, assurance frameworks, assurance mapping, lean auditing, IA effectiveness and board effectiveness. He was a member of the Council of Directors of the UK IIA and was formerly Chief Internal Auditor of AstraZeneca PLC.

Definitions

Assurance framework	Assurance Map (A-Map)
<p>A framework that provides a structure for the evidence to support an Annual Governance Statement.</p> <p>It typically involves determining the principal risks to the organisation meeting its principal objectives; clarifying the key controls in place to manage them, and setting out how senior management and the board have gained sufficient assurance about their effectiveness.</p> <p>Often underpinned by Assurance Maps.</p> <p>See: “Building an Assurance framework” ~ NHS</p>	<p>An assurance map involves mapping assurance coverage against one, or several, key risks in an organization.</p> <p>Its key focus is the clarification of where risk and assurance roles and accountabilities reside.</p> <p>It helps to ensure there is a clear, comprehensive risk and assurance picture with no duplicated effort or gaps.</p> <p>An A-Map is an important tool in developing an assurance framework</p>

Planning your assurance needs

Assurance needs to balance the **value** of assurance with the **cost** of assurance

- According to **risk**
- And **statutory requirements**
- And **accountability** demands

Key questions to ask:

1. Do we have all the assurances we need to meet our responsibilities as an audit committee and to ensure the organisation meets its statutory duties?
2. Do we have assurance across all key areas, not just financial risks and statutory obligations?
3. Are we over-relying on internal and external audit for assurance? Are there other sources of assurance we should be hearing from?
4. What degree of rigour underpins the assurances being received in terms of the breadth and depth of risk assurance coverage?
5. Are we taking steps to improve the efficiency and cost-effectiveness of assurance, for example removing any duplication?

Diana Melville
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Risk Outlook for 2012

Last year we identified a top 10 risks for 2011 and we have an updated list for 2012. Each organisation will have its own strategic risk profile and you might find it helpful to compare that with the list below. Whilst risk management is about prevention and preparedness, it is also about seeking opportunities for improvement and meeting your organisation's goals.

	Potential Risk Area	What the audit committee can do
1	<p>Fraud</p> <p>The National Fraud Authority has estimated that £21.2 billion of fraud is against the public sector.² Whilst £15 billion is tax fraud, that still leaves substantial fraud being undertaken against the budgets for public services.</p> <p>For example the NFA estimate procurement fraud against central and local government to be £2.3 billion, payroll & recruitment fraud to be £329 million, and housing tenancy fraud to be £900 million.</p> <p>At the same time there are rising expectations from the government that public sector bodies will act effectively to prevent, detect and investigate fraud. The NFA have published 'Fighting Fraud Together' that sets out their strategy for tackling fraud.</p>	<p>Ask whether fraud risks have been identified, assessed and counter fraud plans are in place.</p> <p>Review your organisation's counter-fraud capability and resources. Are any changes planned?</p> <p>Ask if the staff working in 'at risk' areas are aware of the fraud risks and know how to raise concerns.</p> <p>The Better Governance Forum has a checklist for audit committees to use when reviewing your counter fraud arrangements. Checklist</p>
2	<p>Financial Challenges and budget cuts</p> <p>Public bodies have already made substantial savings in 2011 and more will be planned in 2012.</p> <p>A recent Audit Commission report 'Tough Times' reported that auditors expected 90% to balance their budgets, but that had involved service cuts in many areas and some planned cuts may not be sustainable.</p>	<p>The audit committee will not play a lead role in developing the budget as this is an executive responsibility.</p> <p>The audit committee may seek assurance that the decision making process includes good governance principles. For example:</p> <ul style="list-style-type: none"> • Has a risk assessment been undertaken? • Is there sound data on service costs? • Are proposals consistent with the longer term financial plan and vision for the organisation? • Has appropriate consultation been undertaken?
3	<p>Transformation Programmes</p> <p>As part of their plans to achieve significant savings many public sector bodies are planning transformation programmes. These could involve the establishment of new service delivery bodies or outsourcing. Some proposals are very complex and will take place over a long period of time and some include private or public sector partners.</p>	<p>A major change programme should have its own risk register and arrangements in place to review & manage risks and keep senior managers and board members updated.</p> <p>The audit committee can seek assurance that risk management arrangements are in place and working effectively.</p>

² <http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/annual-fraud-indicator/>

	<p>Any complex programme poses a number of risks and an organisational change programme is no exception. Possible risk areas include:</p> <ul style="list-style-type: none"> • Legal risk • Financial risk • People risks • Technological risks. 	<p>The audit committee should also consider what assurance is available on the programme, for example through the programme board or from an internal audit review.</p> <p>The Better Governance Forum has a list of common risks arising from organisational change which may assist your own risk reviews. Change risks & opportunities</p>
4	<p>Achieving Value for Money</p> <p>This is a continuing goal for public services and one that is complicated by budget reductions.</p> <p>Some budget reductions mean a reduction in service rather than a true 'efficiency'. Some savings could mean the effectiveness of the service is reduced as well or there could be unintended consequences. Often these risks may not be recognised at the time.</p> <p>The Good Governance Framework for local government includes the following supporting principle: 'ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money.'</p>	<p>Consider what assurance is received on your organisation's achievement of value for money.</p> <p>Also consider what arrangements are in place to ensure value for money across the organisation. How well do they work in practice?</p> <p>Does the audit committee review any evidence on value for money as part of the Annual Governance Statement? Does the statement itself clearly show how the governance principle is achieved?</p>
5	<p>Preparing for a change in external auditors</p> <p>This may be a particular challenge for local government as result of the outsourcing programme the Audit Commission is organising, but could also impact on other public bodies.</p> <p>The finance and internal audit teams will need to plan early meetings with the new external auditors and understand what their expectations are. The external auditors rely on the work of internal audit and this will need to be planned by the audit team.</p>	<p>The audit committee should ask the current external auditors to brief them on handover arrangements to help ensure a smooth transition.</p> <p>The Audit Commission will commence consultation on the proposed permanent appointment at the end of April 2012.</p> <p>The audit committee will also want to meet the new engagement manager or lead auditor and ensure that external audit have arrangements in place to meet with finance and internal audit.</p>
6	<p>Implementing the Localism Act</p> <p>Key aspects that are of interest to the audit committee are:</p> <ul style="list-style-type: none"> • New duty to promote and maintain high standards of conduct. • New arrangements for the investigation of allegations. • Changes to governance will be permitted including elected mayors or return to the committee form. 	<p>In the 2011/12 Annual Governance Statement authorities will need to highlight any changes they have made or are making to the deliver of the 'Good Governance' principle relating to the authority's values and upholding standards of conduct and behaviour. Audit committees should be satisfied that the arrangements meet the governance framework and also the requirement of the Localism Act to 'promote and maintain high standards of conduct.'</p>

7	<p>IT Security and Cyber Risks</p> <p>Public bodies rely on IT services to deliver their services and much sensitive and personal data is held on their databases. Ensuring adequate security from unauthorised access, hacking and resilience to denial of service attacks is a continuing challenge for the organisation.</p> <p>Arrangements should be in place to ensure that all staff and governors understand their own responsibilities for security. Resilience and protection should be regularly tested and evaluated.</p>	<p>The audit committee should seek assurance that risks have been fully identified and mitigation strategies and contingency arrangements are in place.</p> <p>This area is likely to feature in internal audit plans and may require specialist IT audit skills. It is also an area on which external audit will seek assurance to support their opinion and governance work. The audit committee should review the outcomes of the audit and monitor the implementation of priority recommendations.</p>
8	<p>Impact of wider economic problems</p> <p>The continuing economic gloom in the national and local economy will continue to impact on public services. Examples include:</p> <ul style="list-style-type: none"> • Reduced income from fees & charges • Low returns on investments • Depressed property values • Increased welfare demands • Social unrest <p>Corporate plans and medium term financial planning will need to be reviewed and revised to reflect the latest forecasts and to take account of emerging risks.</p>	<p>Horizon scanning is a useful risk tool to help organisations plan for the longer term. Audit committee members can support such approaches and bring a governance perspective to the discussion.</p>
9	<p>Open public services & transparency</p> <p>The white paper was issued in July 2011 and covers a range of issues relating to greater innovation and increasing choice and changing the provision of services by putting power directly in the hands of citizens and communities.</p> <p>One key objective is to increase transparency to the public by increasing the amount of information available on service providers.</p> <p>Increased local accountability is also promised with scope to challenge the provision of services.</p>	<p>As this agenda develops audit committees will want to see that the risks are identified and assessed. Commissioning risks are one area that should receive particular attention.</p>
10	<p>The Olympics</p> <p>The effectiveness of business continuity arrangements may be challenged by the Olympic Games, particularly for organisations in the London area or other Olympic sites. As well as the potential disruption to transportation or risk of security incidents, organisations need to be aware of whether their key service partners will be impacted.</p>	<p>The audit committee can review the identified risks and mitigations. Business continuity plans and IT disaster recovery plans should be regularly tested and kept up to date.</p>

Government's response to the consultation on the future of local public audit

The Government published its response to last year's consultation on 4th January 2012. The Government is proposing to issue a draft bill for pre-legislative scrutiny in Spring 2012 and CIPFA is assisting in this process.

The following summary of key principles looks at the Government's proposals from the perspective of the audit committee:

- Local authorities will have a statutory duty to appoint their external auditors.
- Appointments will be made by Full Council following the advice of an Independent Audit (or Auditor) Appointment Panel.
- The Independent Audit Appointment Panel would be independently chaired with a majority of independent members.
- Where a body has an independent audit committee (i.e. with a majority of independent committee members), this can be used instead of a separate Panel.
- The Independent Audit Appointment Panel can be shared across local bodies to facilitate joint procurement exercises.
- If the local public body does not follow the advice of the Independent Audit Appointment Panel in making its appointment it will be required to publish its reasons for not choosing to follow that advice.
- The Government is proposing to provide for a limited set of functions of the Panel in legislation around advising on auditor appointment, independence, removal and resignation and public interest reports.
- The Government has acknowledged that where there is an existing audit committee there may be issues about the demarcation of responsibilities between both groups. It is proposing to work with the sector and develop guidance.
- The consultation response currently says that the Independent Audit Appointment Panel will be required to approve the provision of non-audit services to the audited body. However, CIPFA has provided the view to DCLG that it would be inappropriate for the Panel to have a say on what non-audit services would be appropriate to a public body. It has agreed to revisit this specific area; one option is that the audit committee approves non-audit services, but the Independent Audit is simply notified of additional services in order to monitor the balance of audit versus non-audit services being provided.
- The external auditor and the Independent Audit Appointment Panel will be designated persons under the Public Interest Disclosure Act.
- The scope of the external audit will continue to include a value for money component.
- The government intends local public bodies to have responsibility for providing evidence of securing value for money. The Government will work with the sector to develop guidance on this.

Ian Carruthers, Director of Policy and Technical at CIPFA, commented,

"The Government's response is helpful in providing a firmer outline of the proposed new arrangements for local public audit. However there remain areas for concern and considerable further work is required to develop the detailed practical guidance necessary for individual bodies to implement the Government's proposals consistently and cost-effectively."

The Government has acknowledged that issues around the relationship between the audit committee and the Panel will need further examination and guidance. It has carried out 'engagement events' in January to discuss some of the following issues with local government finance and audit officers as well as audit committee members:

- how the Panel will be appointed

- how many authorities could share a single Independent Audit Appointment Panel; for example, could regional Panels be created?
- the definition of 'independent'
- responsibilities of the Panel, and
- how auditors will, in future, audit value for money at public bodies.

CIPFA has been in close discussions with DCLG since the proposal that the Audit Commission should be abolished was announced. More recently, CIPFA's policy and technical team has met with DCLG to share its knowledge and expertise in setting audit committee guidance and to offer specialist assistance in drawing up future guidance for the proposed Independent Audit Appointment Panels.

Once the draft bill is published, or further guidance emerges, Audit Committee Members will need to consider how the Panel will impact on its own role. There is nothing in the response to suggest that the audit committee's role in receiving and monitoring external audit reports will change so this will continue to be an important part of the audit committee's function.

Other audit committee functions that could be affected include:

- oversight of cooperation between internal and external audit and impact on external audit fees
- oversight of arrangements to secure value for money, and
- overall assurance framework and the role played by external auditors in the provision of audit and non-audit services.

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Recent developments you may need to know about:

Localism Act

The Act received Royal Assent on 16th November 2011. The act contains a wide range of provisions but the most pertinent areas for audit committees to be aware of are:

- Developments in the ethical framework.
- Pay transparency
- Opportunity to change form of governance including elected mayors and return to committees from the executive model.

A briefing on the main provisions of the act and a list of those parts that are now current is available on our website. [Localism Act Briefing](#).

Future of Local Public Audit

The government's response to the CLG Select Committee report was published in October. It is available from the Parliament website. [Response to Select Committee](#)

The government's response to the consultation conducted between March and June 2011 was published in January 2012. Key aspects that are of particular interest to audit committees are featured in the main section of this briefing. The full government response is available [here](#).

Outsourcing of external audit providers

The Audit Commission is currently undertaking a major exercise to outsource external audit contracts. Thirteen potential providers were invited to tender. The Commission will decide on the award of contracts in February and March 2012 and consultation with audited bodies on the proposed awards will commence at the end of April. Audited bodies will have the opportunity to make representations to the Commission on the proposed auditor appointments if they do not agree with the proposals. Auditor appointments will be approved in July to start from September. Details of the shortlisted audit firms and timetable are available on the Audit Commission website. [Outsourcing timetable](#).

The Audit Commission have published a strategy setting out their approach for auditor appointments for 2012/13 and the process to follow for objecting to the proposed auditor appointment. [Appointments Strategy](#).

Scrutiny of Treasury Management

Audit Committees responsible for undertaking the scrutiny of treasury management should be aware that a new *CIPFA Treasury Management Code of Practice 2011* has just been published. To support the effective scrutiny of treasury management strategy and policies the Better Governance Forum and Treasury Management Network have developed a self-assessment. It is available to download from the website. [Effective Scrutiny of Treasury Management](#)

Fighting Fraud Together

The National Fraud Authority (NFA) launched their national strategy for countering the threat of fraud in October 2011. The document outlines the fraud challenge and sets out the NFA's objectives: Awareness, Prevention and Enforcement. [Fighting Fraud Together](#).

In November the NFA held a conference to launch Fighting Fraud Locally outlining how they will be working with local government to tackle fraud. More details on this are expected shortly.

Protecting the Public Purse

This report from the Audit Commission highlights the risks of fraud to local government and identifies good practice in fighting fraud. In 2010/11 the Audit Commission's fraud survey reported £185 million of detected fraud across local government. The report includes a short checklist for those responsible for governance so it is an ideal resource for audit committee members. The report focuses on local government but many of the issues apply equally to other public sector organisations. [Protecting the Public Purse 2011](#)

Social Housing Fraud

The government has issued a consultation document proposing ways to tackle tenancy fraud. If your organisation is a housing provider then you may wish to respond to the government's consultation. [More details](#).

Responding to the challenging financial climate

In [Tough Times](#) the Audit Commission reviewed how well councils have responded to the need to make savings. Commenting on the Audit Commission report Alison Scott, Assistant Director CIPFA said: "Local government has done exceptionally well in managing the job so far. But in the face of further reductions in funding, councils need to ensure that their financial management remains of the highest possible standard."

Good Governance Guidance Note

CIPFA is commencing an update of the guidance note that supports the good governance framework for local authorities. The revised note will reflect changes to legislation and a range of other developments including the CIPFA Statement on the Role of the Head of Finance and CIPFA Statement on the role of the Head of Internal Audit. Formal consultation will take place in May 2012. The updated guidance note will not affect Annual Governance Statements for 2011/12.

Auditing the accounts 2010/11: Quality and timeliness of local public bodies financial reporting

The annual report from the Audit Commission reflects the outcomes from the external audit of financial statement, value for money conclusions and review of annual governance statements. Overall the sector performed well in ensuring that accounts were available for audit on time and published by the deadline of 30th September. Nearly two-thirds of bodies had to adjust their accounts to correct material misstatements identified during the audit however.

Just under a half of bodies followed CIPFA's recommended practice of including a 'comply or explain' statement relating to the role of the Chief Financial Officer as part of their Annual Governance Statement.

To ensure any weaknesses identified by audit reports are addressed and to ensure that the finance team are well placed for the preparation of financial statements for 2011/12, audit committees should monitor the implementation of recommendations and plans. [Auditing the Accounts](#).

Improving Board Effectiveness

The Public Chairs' Forum and the Chartered Institute of Public Finance and Accountancy (CIPFA) have published a joint 'how to' guide for Chairs and Boards of public bodies.

Board Governance Essentials: A Guide for Chairs and Boards of Public Bodies offers Chairs and board members indispensable advice on the roles that they perform, in turn helping to make their time with the board as effective and fulfilling as possible. The guide is available from the CIPFA shop. [Board Governance Essentials](#)

The Audit Committee Cycle

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

Reviewing the Annual Governance Statement (AGS)

Although the Statement won't be approved until later in the year it is important to plan assurance needs and to be aware of major changes affecting the governance of the organisation.

Items to consider for the Annual Governance Statement:

- Any impact on governance, risk or internal control arising from budget reductions.
- Role of the Chief Financial Officer, in accordance with CIPFA's guidance. [Role of CFO](#)
- Role of the Head of Internal Audit. [CIPFA Statement](#)
- Financial reporting performance, particularly in the light of IFRS.
- Changes to the assurance framework, for example changes to the assurances arising from new shared service arrangements or partnerships.
- Any changes or proposed changes to ethical governance arrangements. For example disbanding the standards committee.

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