

## **AUDIT COMMITTEE**

**Venue:** Town Hall,  
Moorgate Street,  
Rotherham. S60 2TH

**Date:** Wednesday, 29th June 2011

**Time:** 4.00 p.m.

## **A G E N D A**

1. To determine if the following matters are to be considered under the categories suggested in accordance with the Local Government Act 1972.
2. To determine any item which the Chairman is of the opinion should be considered as a matter of urgency.
3. Minutes of the previous meeting held on 1st June, 2011 (herewith) (Pages 1 - 4)
4. Chairman's Briefing.
5. External Audit Plan 2011/12. (report herewith) (Pages 5 - 12)
6. Sundry Accounts - Performance 2010/11. (report herewith) (Pages 13 - 15)
7. Better Governance Forum - update. (report herewith) (Pages 16 - 34)

**AUDIT COMMITTEE**  
**Wednesday, 1st June, 2011**

Present:- Councillor Sangster (in the Chair); Councillors Gilding, Kaye, License and Sims.

Also in attendance were Councillor Wyatt (Cabinet Member for Resources and Commissioning) and Mr. S. Clark (KPMG)

**P1. MINUTES**

Resolved:- That the minutes of the previous meeting held on 13th April, 2011 be agreed as a correct record.

**P2. AUDIT COMMITTEE WORK PLAN**

Colin Earl, Director of Internal Audit and Governance, presented the submitted report providing an updated workplan for the Committee for 2011/12.

The Plan had been updated to ensure it remained as up to date as possible taking account of current significant issues relating to the Committee's terms of reference.

Reference was made to the need to ensure that there was no overlap/duplication of work by this Committee and the newly established Self Regulation Scrutiny Select Commission.

Resolved:- (1) That the updated workplan for 2011/12 be approved.

(2) That a standing item "Chair's Briefing" be included on all future agendas.

**P3. INTERNAL AUDIT ANNUAL REPORT 2010/11**

Colin Earl, Director of Internal Audit and Governance, introduced Mark Bicknell (Internal Audit Manager) and Stephen Pearson (Audit Manager) and presented the submitted report providing information on the role of Internal Audit, work undertaken during 2010/11 and the overall opinion on the Council's control environment.

Based upon the Internal Audit work undertaken, it was possible to confirm that the Council's control environment for 2010/11 was adequate and operated satisfactorily during the year.

The report also referred to the formal review of the effectiveness of Internal Audit required to be completed in accordance with the Accounts and Audit Regulations 2011. The review concluded that there was an effective Internal Audit in place in 2010/11.

Discussion and a question and answer session ensued and the following issues were covered:-

- opportunities for reciprocal reviewing of internal audit by local authorities

- Swinton Community School – Budgetary Control Arrangements
- National Fraud Initiative and multi-agency approach
- Out of Authority placements for looked after children
- bereavement services
- card payments
- need to ensure no overlap/duplication of work with the scrutiny select commissions

Resolved:- (1) That the Internal Audit Annual Report for 2010/11 be noted including confirmation that the Council's control environment was adequate and operated satisfactorily during the year.

(2) That confirmation there was an effective internal audit in place for 2010/11 be noted.

#### **P4. ANNUAL GOVERNANCE STATEMENT 2010/11**

Colin Earl, Director of Internal Audit and Governance, presented the submitted report which detailed the draft Annual Governance Statement for 2010/11 and outlined the Council's view of the application of good governance standards in the Council. The overall position was positive with progress being made on the significant issues raised in last year's statement.

The Statement would be presented to Cabinet for agreement following which the Leader of the Council and Chief Executive would be requested to sign the Statement. The agreed Statement would then be presented to this Committee for adoption along with the Statement of Accounts.

The report set out in detail the:-

- General principles
- Procedure
- Structure of the Annual Governance Statement
- Significant governance issues
- Review and monitoring

Resolved:- That this Committee notes:-

(a) the draft 2010/11 Annual Governance Statement

(b) the Statement needed to be presented to Cabinet for consideration and agreement

(c) the requirement for the Leader and the Chief Executive to sign the Statement following consideration by Cabinet and prior to its presentation back to this Committee and ultimately publication of the accounts in September, 2011.

**P5. INTERNAL AUDIT STRATEGY AND AUDIT PLAN 2011/12**

Colin Earl, Director of Internal Audit and Governance, presented the submitted report relating to the appended draft Internal Audit Strategy and the draft Internal Audit Plan 2011/12.

The report explained how the approach to the development of the Plan was in line with professional practice as well as detailing specific areas of activity intended to be covered.

Resolved:- (1) That the Internal Audit Strategy, as now submitted, be approved.

(2) That the Internal Audit Plan 2011/12, as now submitted, be approved.

**P6. COMMUNITIES AND LOCAL GOVERNMENT - CONSULTATION ON THE FUTURE OF LOCAL PUBLIC AUDIT**

Colin Earl, Director of Internal Audit and Governance, presented the submitted report relating to a consultation document issued by the Government, Department of Communities and Local Government on the 'Future of Local Public Audit'. It related to external audit arrangements and various associated matters.

The proposals provided for:

- The establishment of a regulatory framework that was similar to the framework for the private sector. It would involve the National Audit Office setting Codes of Practice for external audit. The Financial Reporting Council and 'Recognised Supervisory Bodies' would be responsible for regulating external audit services.
- Councils appointing their own external auditors
- An enhanced role for audit committees, including giving them responsibility for advising on whether non-audit work should be carried out by external auditors and potentially receiving whistleblowing complaints and ensuring they are investigated.
- The appointment of independent Chairs and Vice-Chairs of Audit Committees and a majority of independent members of Audit Committees

The paper also asked whether councils should be required to produce annual reports containing specific information.

The Committee considered, in turn, each of the 41 consultation questions for principal authorities, the proposed answers and the draft response to the consultation.

Resolved:- (1) That, subject to the need for qualification of the response to question 35 as now discussed, the proposed response to the consultation, as now submitted, be supported.

(2) That the possibility of appointing co-opted members to the Audit Committee be explored further.

**ROTHERHAM METROPOLITAN BOROUGH COUNCIL**  
**REPORT TO MEMBERS**

<b>1. Meeting:</b>	<b>Audit Committee</b>
<b>2. Date:</b>	<b>29<sup>th</sup> June 2011</b>
<b>3. Title:</b>	<b>External Audit Plan 2011/12</b>
<b>4. Directorate:</b>	<b>Financial Services</b>

**5. Summary**

The Council's external auditor, KPMG LLP, has set out in its Annual Audit Plan Letter for 2011/12 (Appendix 1) the proposed external audit work relating to council services and functions that will be undertaken.

**6. Recommendations**

**Audit Committee approve KPMG's Annual Audit Plan Letter 2011/12, noting the proposed areas for audit identified.**

## 7. Proposals and Details

The KPMG Annual Audit Plan Letter for 2011/12 sets out the proposed audit work to be undertaken in 2011/12. The Plan has been drawn up using a risk-based approach to audit planning. It reflects:

- Audit work identified by KPMG for 2011/12;
- Current national risks relevant to the Council's local circumstances; and
- The Council's local risks and improvement priorities.

In drawing up the plan and setting the fee, KPMG have assumed that the general level of risk in relation to the Council's audit is in line with the Audit Commission's published work programme and scales of fees for 2011/12.

The main two elements of the external auditors planned work is in relation to the following:

- **Financial statements 2011/12** - KPMG will carry out the audit of the Council's 2011/12 financial statements in accordance with International Standards on Auditing and are required to issue an opinion on whether the financial statements 'present fairly' the financial position of the Council as at 31 March 2012 and its income and expenditure for the year then ended. This opinion is expected to be given by September 2012.
- **Value for Money Conclusion 2011/12** – KPMG are required to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Under the new Audit Commission approach the work will be structured around 2 themes:

**Theme 1: Assessing the Council's arrangements for securing financial resilience; and**

**Theme 2: Assessing the Council's arrangements for challenging how it secures economy, efficiency and effectiveness.**

The two themes are not new and were effectively part of the previous Use of Resources assessment. The primary driver for reviewing financial resilience is the current, difficult financial climate that local authorities find themselves in and in particular the need to deliver an unprecedented level of financial savings over the next few financial years. KPMG expect to issue their VFM Conclusion for this work in September 2011.

In addition, external audit will also carry out the following work:

- **Interim Audit Review** - KPMG will identify and assess the adequacy of the Council's control and governance framework (including Internal Audit) underlying its published financial information so as to gain assurance of the robustness of its financial systems, processes and procedures. A report on this assessment is expected in April 2012.

- **Whole of government Accounts (WGA)** - KPMG will be required to review and report on your WGA consolidation pack in accordance with the national approach agreed. An opinion on this return is expected in September 2012, at the same time as the financial statements opinion.
- **Certification of Grant Claims and Returns** - KPMG will continue to certify the Council's claims and returns that are required to be certified by Central Government departments and agencies. The expected number of claims and returns requiring certification will reduce as specific funding streams are consolidated into Central Government Formula Grant and Funding Bodies no longer require an external audit certification. All audited claims and returns are expected to have received an audit certification by January 2013.

## 8. Finance

The 2011/12 indicative fee for the audit work is £310,500 (2010/11 345,000). The fee is in line with our financial planning assumptions. A breakdown of the fee is presented in the audit letter attached at Appendix 1.

## 9. Risks and Uncertainties

The current, difficult financial landscape facing all local authorities brings with it a number of risks that will need to be effectively planned for and managed. The introduction of a new VFM audit approach focussing on financial resilience and prioritising resources within tighter budgets will provide an independent review of how well the Council has planned for and managed these risks. Being able to positively demonstrate this to KPMG will help the Council sustain its strong financial management and financial performance base.

## 10. Policy and Performance Agenda Implications

Good financial management and a strong financial performance are essential to the Council achieving improved corporate and service outcomes in accordance with its Corporate Plan priorities.

## 11. Background Papers and Consultation

- Audit Commission – Work Programme and fee scales 2011/12
- KPMG – Audit Plan Letter 2011/12

### Contact Name:

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APPENDIX 1

**KPMG LLP**  
**Audit**  
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 United Kingdom

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Martin Kimber  
 Chief Executive  
 Doncaster Gate Council Offices  
 Doncaster Road  
 Rotherham  
 S65 1DJ

Our ref RSM/RMBC/514

11 April 2011

Dear Martin,

**Annual audit fee 2011/12**

I am writing to confirm the audit work and fee that we propose for the 2011/12 financial year at Rotherham Metropolitan Borough Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2011/12.

As we have not yet completed our audit for 2010/11, or the audit planning process for 2011/12 including the risk assessment, which will continue as the year progresses, our fees may be reviewed and updated as necessary. We will naturally keep you informed.

The proposed indicative fee for the audit for 2011/12 is £310,500 (plus VAT). This compares to the planned fee of £345,000 for 2010/11.

	<b>Planned fee 2011/12</b>	<b>Planned fee 2010/11</b>
Audit Fee	£310,500	£345,000
Less: IFRS Disbursement	-	(£21,319)
<b>Total audit fee</b>	<b>£310,500</b>	<b>£323,681</b>

At this stage I estimate that the fee for the certification of 2011/12 grants and returns will be £75,000. As the amount of work will depend on a number of factors that cannot be predicted with certainty at this early stage, including the number and nature of the schemes which will require certification, I will provide an update to this estimate at a later date. I will write to the Strategic Director of Finance separately when I have a better understanding of the likely scale of this work.

The indicative fee is based on a number of assumptions, which I have summarised in Appendix 1 to this letter. The Audit Commission has published its work programme and scales of fees 2011/12 and the scale fee for Rotherham MBC is £310,500. The fee proposed for 2011/12 is in line with the scale fee. The 2011/12 scale fee reflects significant reductions from the new approach to the VFM audit, where the volume of work has reduced compared to the previous use of resources scored judgements regime. Fees have also reduced because some of the additional audit costs associated with the introduction of International Financial Reporting Standards last year are not present in 2011/12. Your fee does not reflect any additional work that may result from the change in financial ledger coding structure.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2010/11. A separate plan for the audit of the 2011/12 financial statements will be issued later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Strategic Director of Finance and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

In line with previous years, the 2011/12 audit fee will fund our VFM audit work during 2011, leading up to the VFM audit conclusion which we will issue in September 2011. The VFM audit will be the first under the Audit Commission's new approach and will be structured around two themes:

- Financial resilience (considering financial governance, financial planning and financial controls); and
- Prioritising resources within tighter budgets (considering arrangements for prioritising resources and improving efficiency and effectiveness)

The new audit approach was set out in the VFM audit plan which I presented to the Audit Committee in March 2011.

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of Rotherham MBC. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

ABCD

**KPMG LLP**  
 Annual audit fee 2011/12  
 11 April 20 11

The key members of our audit team for the 2011/12 audit are:

Name	Role	Contact details
Steve Clark	Engagement Lead	Stephen.clark@kpmg.co.uk 0113 2313148
Alison Ormston	Senior Manager	Alison.ormston@kpmg.co.uk 0113 231 3444
Robert Mitchell	Assistant Manager	Robert.mitchell3@kpmg.co.uk 0113 231 3356

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) or on request.

Yours sincerely



Steve Clark  
 Director

**Appendix 1 – Audit fee assumptions**

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2011/12 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the financial statements audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

<b>Planned output</b>	<b>Indicative date</b>
Financial Statements audit plan	January 2011
Interim audit report	April 2012
Report to those charged with governance (ISA260 report)	September 2012
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2012
Opinion on Whole of Government Accounts return	September 2012
Annual audit letter	December 2012
Certification of grant claims and returns	January 2013

**ROTHERHAM METROPOLITAN BOROUGH COUNCIL****REPORT TO MEMBERS**

<b>Meeting:</b>	<b>Audit Committee</b>
<b>Date:</b>	<b>29<sup>th</sup> June 2011</b>
<b>Title:</b>	<b>Sundry Accounts – Performance 2010/11</b>
<b>Directorate:</b>	<b>Financial Services</b>

**5. Summary**

This report provides an update on the performance of the sundry accounts function and how changes in the computer system and working practices have contributed to improved collection rates and more efficient account management.

**6. Recommendations**

The Committee is asked to:

- Note the contents of this report; and
  - Acknowledge the significant improvements made in the performance of the Sundry accounts function particularly over the last 12 months.
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## 7. Proposals and Details

An average of 25,000 RMBC invoices valued at more than £91 million, are raised annually on the sundry accounts system. Historically, a central team based within the Financial Services Directorate has administered the process of raising the invoices and recovering debts. Annual benchmarking exercises through CIPFA indicated that performance in this area was good but with several areas having scope for improvement.

In 2009 the Council's legacy computer system was replaced with Civica Financials system with the benefits of:

- Empowering users across the Authority to raise their own invoices therefore allowing the central team to concentrate on recovering debts and resolving disputes rather than inputting invoices.
- Automating recovery routes to minimise staff intervention in the early stages.
- Introducing the concept of 'alerters' which automate some communications and escalation of disputes with internal staff.
- Giving improved Direct Debit functionality.
- Giving improved reporting functionality to assess performance.
- Providing a legal module of the system to enable a seamless link with our own Legal staff to facilitate action through the courts where necessary.

The system went 'live' in July 2009 but it was acknowledged that this alone would not significantly improve the Authority's collection performance. Following consultation with internal customers and in accordance with the Authority's Corporate Debt Policy, two External Collection Agents were engaged to pursue outstanding debts. This change in process has had significant impact particularly in the area of commercial rents.

In early 2010, a review of the central team's working practices revealed that whilst staff were considered to be experienced and capable there were no clearly defined areas of responsibility. They were also not empowered or encouraged to sort out problem areas themselves nor use a common sense 'bespoke' approach to collecting debts, which is often needed. They had worked this way for a number of years which may have been appropriate at one time, but was clearly no longer working effectively. There were too many bottlenecks in processes, decision making which was too reliant upon the team leader and it was felt that relationships with directorates was too distant resulting in disputes being prolonged and debts being left outstanding for too long, without any action.

A change in working practices was introduced giving each member of the team a portfolio of debt for which they assumed responsibility from start to finish. They were charged with setting up periodic meetings with directorates to actively discuss and resolve disputes, improve contact with debtors, and liaise with external collection agents to recover cash as soon as possible.

Performance statistics do indicate that as at 31<sup>st</sup> March 2011 there has been a significant improvement in the quality of the information available and the collection performance of the team.

One key indicator is the Days Revenue Outstanding (DRO) target. This gives an average number of days invoices remain outstanding once issued. It is acknowledged that a good performance for a local authority would be less than 60 days whilst in the private sector this would normally be closer to 40 days.

In 2008 before the new system and changes in working procedures, RMBC's DRO was 70 days. In March 2010 it had reduced to 55.6 days and in March 2011 stood at 52.5 days.

In March 2010 RMBC had 4,357 invoices outstanding that were more than 1 year old, to the value of £4.135m. As at March 2011 this had reduced to 2,971 valued at £2.109m.

During 2009/10 the current year collection rate was 84.2%. In 2010/11 this was 92.3%.

### **8. Finance**

Improvements in efficiencies and collection rates have enabled the successful repayment of the 'Invest to Save' bid secured to finance the new system implementation.

The improved collection performance has also enabled the Council to reduce its Provision for Bad Debts from £1.27 million to £1.12 million, a reduction of about £150,000. The release of the provision forms part of the Council's outturn underspend for 2010/11.

### **9. Risks and Uncertainties**

With future emphasis leaning towards inter-authority shared services, the Sundry Accounts Team is in a much stronger position than before. Indeed preliminary talks have already taken place with Doncaster MBC to explore a potential future shared system and relationship.

### **10. Policy and Performance Agenda Implications**

The collection of Sundry Accounts is done in accordance with the Corporate Debt Policy and the Sundry Accounts Billing & Collection Policy, which is currently being updated and rewritten to reflect the changes.

### **11. Background Papers and Consultation**

None

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<b>ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE</b>
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<b>1.</b>	<b>Meeting:</b>	Audit Committee
<b>2.</b>	<b>Date:</b>	29 June 2011
<b>3.</b>	<b>Title:</b>	Audit Committee Update Issue 5
<b>4.</b>	<b>Directorate:</b>	Financial Services

### 5. Summary

The Audit Committee's work programme provides for briefings to be presented to the Committee on any significant publications issued on any areas covered by the Committee's terms of reference.

The Better Governance Forum has recently issued the fifth edition of the Audit Committee Update series, which started in 2010. The purpose of the publication is to provide Members with direct access to relevant and topical information that will support them in their role. This issue covers IFRS (International Financial Reporting Standards), results of a national survey on audit committees and various other current issues.

This report confirms the positive position of the Council on the relevant areas covered by the update. The report also highlights areas for future consideration by the Audit Committee, including the implications of the Bribery Act 2010 and changes to the housing finance regime.

### 6. Recommendations

**The Audit Committee is asked to note the contents of the Better Governance Forum update, support the arrangements in place for managing the various issues raised and note proposals to bring forward further reports to the Audit Committee on specific issues.**

## **7. Proposals and Details**

The Better Governance Forum (BGF), which is part of the Chartered Institute of Public Finance and Accountancy (CIPFA), provides guidance and best practice to the public sector on governance matters. The service also aims to provide briefing papers 3 times per year on topics of relevance to Audit Committee Members.

The BGF has recently issued the fifth issue of Audit Committee Update. The briefing, attached at **Appendix 1**, covers the following issues:

### **7.1 Understanding the impact of IFRS (International Financial Reporting Standards) on local authorities' accounts**

IFRS has resulted in many changes in local government accounting. In complying with IFRS, authorities have needed to review their leases, accrue for untaken leave, consider the value and classification of assets and ensure that they are clear on the status and conditions surrounding grants from Government and 3<sup>rd</sup> party contributions. New figures and disclosures have been required in a number of areas including these.

The Audit Committee update emphasises the benefits of briefing and involving audit committees in the progression towards IFRS. Reports and presentations have been made to the Audit Committee previously in October 2010 and February 2011.

The update highlights the main changes to look out for in the accounts and, as is the norm with these updates, provides key questions for Audit Committee Members to ask.

Financial Services have made good progress in implementing IFRS and this has been acknowledged by the Council's external auditors, KPMG. Financial Services will produce a set of draft accounts which will be IFRS compliant by 30 June 2011. The draft accounts will be presented to the Audit Committee at its meeting on 20 July 2011 in accordance with the Accounts and Audit Regulations 2011 and subsequent guidance from CIPFA. It is proposed that the questions highlighted in the attached briefing will be addressed within the covering report presented to the Audit Committee with the accounts in July.

### **7.2 CIPFA Audit Committee Survey**

Earlier this year heads of internal audit in local government were sent a survey by CIPFA to ask about the current arrangements for audit committees in local government. The aim of the survey was to find out how the audit committee role was being delivered in local government and to see where audit committees were judged to be most effective and where audit committees might consider developing their approaches.

The briefing contains details of the survey results, with the main learning points being:

- About 60% assessed audit committees as being effective or very effective in promoting good governance or providing accountability to the public, with the remaining 40% rating arrangements as ineffective
- The weakest areas overall were those relating to partnerships, with fewer than 25% reporting effective or very effective arrangements
- The most common barriers to improvement were the limited knowledge or experience of the audit committee members (50%) and turnover of committee membership (44%).

It is not considered that any of the perceived weaknesses are relevant at Rotherham:

- The Audit Committee has been supportive of actions to promote good governance and accountability, for example by supporting officers' plans in these areas and approving annual reports relating to the Audit Committee's and officers' activities.
- The Council's Audit Committee has established arrangements with partners' audit committees in Rotherham and the wider sub-region to consider issues of mutual interest, including partnership arrangements. It has received regular reports on partnerships' governance issues.
- The Committee has an established membership and has continually received refresher training on relevant areas of responsibility.

The Audit Committee carries out a self assessment of its strengths and weaknesses on an annual basis and these assessments have led to a range of improvements including:

- The production of Audit Committee Annual Reports
- The provision of regular refresher training sessions on topics related to the Committee's terms of reference
- Provision of more information on the Council's accounts and treasury management to facilitate greater understanding and more effective challenge by the Audit Committee in these areas
- Improved reporting of internal audit activities and the corporate risk register
- Reference to the Audit Committee and its activities in the Annual Governance Statement.

The briefing contains 5 key questions for audit committees. These are listed below along with comments on current arrangements at Rotherham Council:

Key Questions	Comments
1. Does our current audit committee structure still meet the council's needs? Does it meet recommended practice and is it a good base on which to build for the future?	<i>This question is addressed each year through self-assessments completed by the Audit Committee. There have been several improvements and no perceived significant weaknesses.</i>
2. Are our agendas looking at the right things? Do we get assurance on everything we need?	<i>The Audit Committee regularly challenges itself on items to be considered. The Committee produces an annual report each year showing how it has fulfilled its Terms of Reference (TOR). The TOR comply with CIPFA best practice.</i>
3. Is the Audit Committee effective in promoting good governance and providing accountability? How could it improve?	<i>The Audit Committee has been very supportive of financial management and audit activity, including plans for implementing new requirements such as IFRS and approving and endorsing anti-fraud and corruption plans and strategies. The Audit Committee has approved and supported various reports highlighting the Council's arrangements, including its own annual report.</i>

Key Questions	Comments
4. What are our barriers to improvement? What can be done about them?	<i>The Audit Committee considers any development needs when conducting annual self-assessments. The assessment criteria can be extended to consider any issues raised by the Audit Committee Updates produced by CIPFA during the course of the year.</i>
5. How will our audit committee be affected by government proposals? Are there any steps we should start to take now?	<i>The Audit Committee considered the Communities and Local Government (CLG) Consultation on the Future of Public Audit at its meeting on 1 June 2011. The Council and the Committee will respond as appropriate to final proposals produced by the CLG.</i>

### 7.3 Current Issues and Developments

The briefing provides details on a number of other miscellaneous developments, which are listed below along with the Council's current position and future needs.

- **Accounts and Audit Regulations 2011** – A report on the changes to the Regulations was presented to the Audit Committee in February 2011. The changes primarily affected the accounts process and the annual governance statement (AGS) and have been adopted for the production of the 2010/11 accounts and AGS.
- **The Bribery Act 2010** – The Act comes into force on 1 July 2011 and requires local authorities to consider and extend their arrangements for preventing bribery. Arrangements are currently being incorporated into the Council's anti-fraud and corruption policy and strategy, following which an update will be provided to the Audit Committee.
- **Housing finance & treasury management implications** – The Government proposes to replace the existing housing finance system with a new 'self-financing' system intended to provide greater freedom and transparency. These reforms will be implemented on 1<sup>st</sup> April 2012 and the financial implications of the changes are complex and will have significant implications for debt portfolios, meaning the importance of long term investment and financing decisions cannot be understated. Officers are working through the detailed implications of the new regime and anticipate providing papers to Members for discussion / decisions from the Autumn 2011.
- **Treasury Management** - CIPFA's Treasury Management Panel is producing a short guide designed to help Members involved in the scrutiny of treasury management with summaries of the key principles and practices. The document will be presented to the Audit Committee when received, along with appropriate commentary.
- **Risk Governance** - A new Guidance Note on Risk Governance produced by the Better Governance Forum is expected to be made public shortly. It includes a review of current standards and expectations on risk governance and looks at current trends across the sectors. It will also contain a series of questions to help

organisations evaluate their current arrangements. The guidance will be presented to the Audit Committee when received, along with appropriate commentary.

**The Audit Committee is asked to note the contents of the Better Governance Forum update, support the arrangements in place for managing the various issues raised and note proposals to bring forward further reports to the Audit Committee on specific issues.**

#### **8. Finance**

There are no direct financial implications arising from this report.

#### **9. Risks and Uncertainties**

The Audit Committee has a key role to play in supporting the application of good governance principles. The information and guidance contained within this briefing will help Members to perform their roles in a positive way.

#### **10. Policy and Performance Agenda Implications**

The Audit Committee's work is wholly related to the achievement of the objectives in the Council's Corporate Plan.

#### **11. Background Papers and Consultation**

Better Governance Forum – Audit Committee Update 5

#### **Contact Name:**

*Colin Earl, Director of Audit & Governance, x22033*

**Appendix 1            Better Governance Forum – Audit Committee Update**

**CIPFA Better Governance Forum**

# Audit Committee Update

- helping audit committees to be effective

**Issue 5 – CIPFA Audit Conference Special**

**Understanding the impact of IFRS on the accounts**

**Key findings from CIPFA's survey of audit committees in local government**

**May 2011**

## Introduction

Dear Audit Committee Member

Welcome to our fifth issue.

This issue focuses on two main topics the impact of IFRS on the accounts and key results from CIPFA's recent survey on audit committees.

I'm sure most of you will be aware that your finance departments have been getting to grips with new International Financial Reporting Standards (IFRS) which come into effect in local government for the first time this year. Other parts of the public sector will have seen the impact of IFRS changes on their accounts last year.

Our article has been written by Paul Boden of the Finance Advisory Network which has run training events and guidance on IFRS for finance practitioners over the last two years.

We are also pleased to include some of the results from CIPFA's recent survey on audit committees in local government. CIPFA produced the good practice guidance on audit committees a few years ago and we felt it was important to get a good understanding of how audit committees are working in practice. Potential changes to the role of audit committees, as set out in the government's consultation document on local public audit (see the current developments section) also make the survey results timely.

I hope you have collected this issue at CIPFA's Audit Conference. For the first time we developed the conference with audit committee members in mind as well as auditors. We felt that it was important that audit committees continue to develop their understanding of the issues and challenges affecting public services and understand how it might impact on them.

Best Wishes

Diana Melville  
CIPFA Better Governance Forum

## Future issues of this briefing:

The next issue is planned for October and will focus on partnerships and shared service arrangements.

We are also starting to plan future issues. Possible topics include:

- Value for Money
- Scrutiny of treasury management
- Evaluating the effectiveness of internal audit
- Information governance risks

## Receive our briefings directly:

This briefing will be sent to all contacts of organisations that subscribe to 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](mailto:jsmith@mycouncil.gov.uk)) then you will also be able to register on our website and download any of our guides and briefings directly. Register now, please click here [http://www.ipf.com/ipfvalidation/login/register\\_visitor.asp?dest=www.cipfanetworks.net](http://www.ipf.com/ipfvalidation/login/register_visitor.asp?dest=www.cipfanetworks.net)**

## Workshops and training for audit committee members in 2011 from CIPFA

### **Advanced Audit Committees**

Have you cracked the basics? Then how about your role in relation to value for money, countering fraud and treasury management?

16<sup>th</sup> June 2011 – Birmingham

### **Effective Audit Committees**

19<sup>th</sup> May – Newcastle

25<sup>th</sup> May – Manchester

7<sup>th</sup> June 2011 – Glasgow

8<sup>th</sup> June – Cardiff

16<sup>th</sup> June – London

September - London

### **CIPFA Audit Conference**

11<sup>th</sup> May - Brighton

Day 1 of the audit conference focuses on the strategic issues of governance and financial challenge for public service organisations. It will be of benefit to audit committee members as well as auditors.

### **Managing the external audit contract – the audit committee role**

Addressing the key issues audit committees will need to address to evaluate the appointment of external auditors and to monitor their performance.

The timing of this event will depend on the timetable of legislation to be announced by the department of Communities and Local Government.

### **CIPFA BGF Annual Conference - The Future of Governance - Keeping strong in the era of austerity!**

Speakers confirmed include: Rt Hon Lord Goldsmith, Professor Anderson, Cambridge University, International Expert on cyber crime, Professor David Heald, Professor of Accountancy, University of Aberdeen Business School, Author of Transparency: The Key to Better Governance?

Advanced bookings can be made by contacting Mohamed Hans  
[mohamed.hans@cipfa.org.uk](mailto:mohamed.hans@cipfa.org.uk)

### **Further details and booking on the website**

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

### **In house training and consultancy support**

In house training tailored to your needs is available. For further details contact Claire Simmons on 0208 6678542 or [Claire.Simmons@cipfa.org.uk](mailto:Claire.Simmons@cipfa.org.uk) or visit the website  
<http://www.cipfanetworks.net/training/portfolio/>



## Understanding the impact of IFRS (International Financial Reporting Standards) on your accounts

A significant change has been taking place in accounting over the last 2 years culminating in a new basis of accounting first applicable from the 2010-11 financial accounts.

When the International Financial Reporting Standards (IFRS) were adopted as the basis of financial reporting in the UK, the public and private sectors have been set the challenge to interpret the accounting principles and apply the new standards to the year end reporting.

Local Government was the last to face the change and 2010-11 is the first time the adopted standards have been applied to a published set of accounts.

### **What are the key changes?**

The journey to the publication has been long for many local authorities. IFRS has meant that many changes in accounting have taken place because IFRS is based on the principle that it has always existed. In practice this has meant that some past accounting treatments required under UK GAAP no longer apply under IFRS. Consequently, previous accounting treatments have been adapted to comply with IFRS requirements and new figures and disclosures produced. This is particularly the case for leases, mainly property leases, which must be examined and, where necessary, the accounting treatment amended to comply with the IFRS requirements.

Other changes have also taken place such as the need to recognise untaken flexi leave, Time off in lieu and holiday at the year end.

Without legislation some of these changes would have impacted on the general reserves of the local authority, e.g. accounting for untaken flexi and leave may have resulted in a substantial charge to the general fund if legislation was not in place to permit local authorities to defer such charges until they are required to be paid out. Fortunately these issues were recognised and the Department for Communities and Local Government in conjunction with CIPFA took steps to mitigate such issues. This mitigation does not preclude authorities for accounting for it but it does manage the impact on the bottom line.

### **What have the changes meant for finance teams?**

In complying with IFRS authorities have needed to review their leases, accrue for untaken leave, consider the value and classification of assets and ensure that they are clear on the status and conditions surrounding grants from government and 3<sup>rd</sup> party contributions.

The scale of the task involved has challenged both the skills and knowledge of accountants but has also impacted upon other areas of the organisation such as Human Resources, Property and Legal Services in accessing the information needed to support the decisions made when applying the new standards, for example looking at lease agreements and capturing data relating to untaken leave and flexi.

Support to authorities in understanding and considering the IFRS changes and requirements has been delivered principally by CIPFA via its Finance Advisory Network, Property Services Network and through the publication of comprehensive guidance. Whilst very useful to practitioners, such assistance does not remove the need for authorities to use judgement based on their own expertise in order to determine their own approaches and establish levels of materiality, review their accounting policies and to communicate effectively within their authorities.

## **What are the benefits of the IFRS changes?**

IFRS has given authorities the opportunity to clear out their attics and look afresh at the information and agreements supporting transactions and to ensure they are accounted for correctly under IFRS. This process will also enable them to establish the processes they need in the future to meet the challenges ahead. Used well, this work has benefits in promoting understanding within the organisation, authorities will for example have a better awareness of their assets, the lease agreements that exist and importantly how improvements can be made in the way information is recorded, maintained and used in the future. Large amounts of unused leave and flexi point towards how well (or poorly) the workforce of the organisation is managed and where excessive work demand pressure points may exist. Similarly, the effectiveness of property management staff can be measured by regularly reviewing numbers of properties classified as surplus to requirements and associated opportunity costs available in their change of use or disposal.

## **How have audit committees been involved?**

In well run authorities the involvement of the audit committee or IFRS committee has proved invaluable as a forum for advising members of the changes faced resulting from the introduction of IFRS, the impact on the accounts and the resources required to deliver the changes. Such involvement is generally supportive to ensure the job is done and is delivered by all areas of the organisation.

Where Committees have agreed the timescales, been well briefed and have approved and supported the necessary changes to accounting policies this will allow the IFRS transition to take place smoothly and prudently, balancing complexity with materiality. The involvement of members in the process will improve their understanding of the 2010-11 and future years accounts when they are presented for final approval anytime from June to September. Auditors are likely to consider this level of involvement as positive.

## **What new things should we look for in the accounts?**

Members will need to be aware that comparative information presented in the 2010-11 accounts, has also been restated to IFRS. This will include the 3<sup>rd</sup> Balance Sheet which is required to show the opening position for the accounts. All of this leads to a mass of numbers that need to be explained and considered. It is suggested that members familiarise themselves with the look and feel of the accounts in advance of their formal approval by 30<sup>th</sup> September.

There are some key areas that members may be interested in. The Balance Sheet shows the assets and liabilities of the authority. As discussed above, the category of surplus assets may be of interest as this shows assets that are no longer used but are not for sale, the question may be why are we keeping them and not realising their sale potential. Flexi and leave accruals (compensated absences) where significant could point towards lack of management on staff time and leave policies.

As a member, if you are not aware of the changes taking place under IFRS ask yourself why and find out what your authority has been doing. Lack of compliance could lead to a qualification of the accounts by the external auditor.

For further assistance, CIPFA have recently produced a briefing note to help Chief Finance Officers and other senior staff present the IFRS-based financial statements for 2010/11 to members and other key stakeholders. This can be found at:

[http://www.cipfa.org.uk/ifrs/download/IFRS how to tell the story.pdf](http://www.cipfa.org.uk/ifrs/download/IFRS%20how%20to%20tell%20the%20story.pdf)

## **Other issues from the accounts**

When reviewing the financial statements the audit committee will need to consider both the changes resulting from IFRS plus those things that are most pertinent to their organisation.

It is helpful to look for trends and significant changes in the figures and to seek to understand the reasons for these.

Each organisation's accounts will present different issues but some general questions that are of use are included below.

## Key Questions to ask:

1. What is meant by surplus and deficit on the provision of services?
2. How has the balance on the general fund been affected over the year?
3. How does the segment report note link to final accounts? <sup>1</sup>
4. Do we have any conditions on grants that are preventing us from using them?
5. What reserves are available to us to use for delivering future services to the public?

Paul Boden  
Finance Advisor  
Finance Advisory Network

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<sup>1</sup> An authority shall present information on reportable segments within the notes. Reportable segments shall be based on an authority's internal management reporting, for example departments, directorates or portfolios. The aim of segment reporting is to disclose information to enable users of a local authority's financial statements to evaluate the nature and financial effects of the activities in which it engages. *Code of Practice 2010/11*

## Results of the audit committee survey

Earlier this year heads of internal audit in local government were sent a survey by CIPFA to ask about the current arrangements for audit committees in local government. 366 surveys were sent out and 44% were returned. The aim of the survey was to find out how the audit committee role was currently being delivered in local government and to see what topics are regularly on the audit committee agenda. Heads of internal audit were also asked where their audit committee was most effective and to identify any barriers to improvement.

CIPFA will use the results to inform its development of guidance and support to audit committees. For audit committee members and those who support audit committees the survey provides a useful snapshot of where we are now, what is working well and what could be better.

### **Key findings from the survey**

#### Structure and role

The most common structure for the audit committee was a stand alone committee reporting to full council (58%) and a further 23% had joint audit and governance committees. The majority of committees are made up of councillors, but 30% do include at least one co-opted independent representative. One third of committees currently include a member of the executive or cabinet.

Current recommended practice is that a member of the executive should not chair the committee; however a minority (9%) do have this arrangement. In 57% of cases the audit committee chair was a member of the ruling party group on the council.

#### Audit committee agendas

We asked a number of questions to find out what topics were on audit committee agendas. The Annual Governance Statement was reviewed by almost all English, Welsh and Northern Irish audit committees whereas 67% of Scottish authorities reviewed the Statement on Internal Financial Control. Reviews of internal audit reports and plans were reviewed almost universally.

73% of councils follow the recommended practice of reviewing the financial statements prior to their approval but 75% of councils were also approving them. With the recent changes under the Accounts and Audit Regulations 2011 it might be an appropriate time to review the role of the audit committee in relation to approving the accounts.

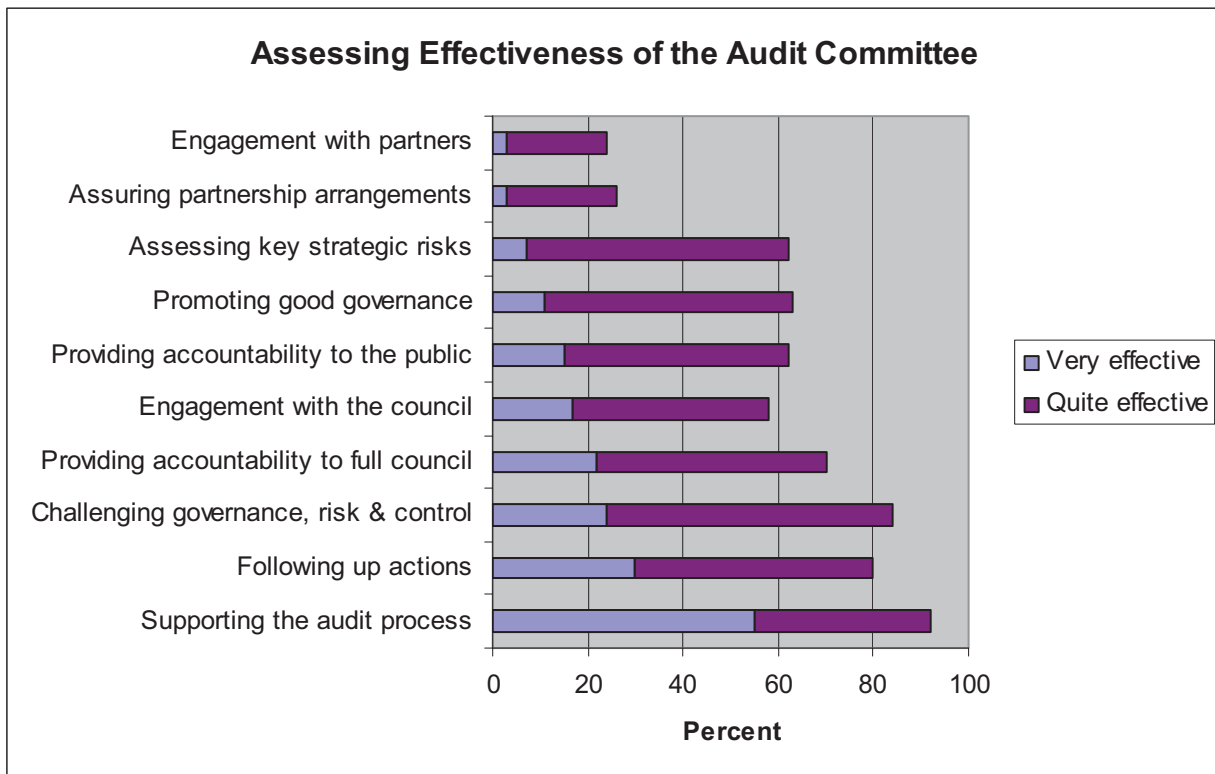
Other agenda areas received a significant response but perhaps still provide opportunities for improvement. Strategic risk registers were seen by 77% of committees but only 53% also reviewed specific risk areas. It is perhaps of concern that some committees reviewing the Annual Governance Statement are not keeping up to date with the council's strategic risks.

48% of committees reviewed value for money arrangements and only 41% reviewed a fraud risk assessment. However, 67% would review the results of a fraud investigation. Again this highlights areas where audit committees could be more aware of the risks and performance of their council.

#### Effectiveness

We asked heads of internal audit for their opinions on the effectiveness of the audit committee.

As the chart below shows the strongest results were for the committees' support for the internal and external audit process. However few found the committee to be very effective in promoting good governance (11%) or providing accountability to the public (15%). The weakest areas overall were those relating to partnerships.



The survey has highlighted areas for improvement, in particular to develop how the committee interacts with partner organisations and provides leadership on good governance and accountability.

Barriers to improvement

The most common barriers to improvement were the limited knowledge or experience of the audit committee members (50%) and turnover of committee membership (44%). Clearly there is a linkage between these two factors as it is difficult to develop knowledge and experience if a member's time on the committee is short. Unitary councils highlighted the greatest number of barriers, for example 65% of respondents highlighted limited knowledge and experience as a barrier.

The intrusion of political interests was only cited as a factor by 27% overall, but in unitary councils the response was greater at 42%.

Future changes

The survey was undertaken before the publication of the Government's consultation document on the Future of Local Public Audit. The majority of respondents (78%) were not planning any major changes to their audit committee. Over half expected the role of the audit committee to stay the same, whilst 43% expected it to expand. Only 1% expected the role to shrink.

Further information

A more detailed breakdown of the results will be available on the Better Governance Forum website.

Where now for audit committees?

CIPFA will make use of the information to ensure that its guidance, training and support for audit committees will help to address key development needs. In local government changes to the role of audit committees will come about as a result of the Local Government Measure in Wales and the government's proposals in its current consultation. CIPFA will be able to use the survey to identify the changes required to meet future requirements.

It is recommended that audit committees regularly review their terms of reference and their effectiveness. The results of this survey will provide a useful input to that process and may help the committee to identify areas where it could improve.

I have included a few key questions to help this self assessment and reflection process.

**Key Questions to ask:**

1. Does our current structure still meet the council's needs? Does it meet recommended practice and is it a good base on which to build for the future?
2. Are our agendas looking at the right things? Do we get assurance on everything we need?
3. Are we effective in promoting good governance and providing accountability? How could we improve?
4. What are our barriers to improvement? What can be done about them?
5. How will our audit committee be affected by government proposals? Are there any steps we should start to take now?

Diana Melville  
Governance Advisor  
CIPFA Better Governance Forum

## Developments you may need to know about:

### **Accounts and Audit Regulations 2011, Local Government England**

The new regulations apply for the consideration of the 2010/11 accounts and Annual Governance Statement. There are a number of changes audit committee members in local government should be aware of including:

- The accounts do not need member approval by 30<sup>th</sup> June but CIPFA has recommended that accounts should still receive scrutiny before they are audited.
- The Annual Governance Statement should accompany the accounts when they are published.
- The review of the system of the internal audit has been replaced by a requirement to review internal audit.

Full details of the changes relevant to internal auditors and audit committee members are outlined in a more detailed briefing produced by the Better Governance Forum. It can be accessed on our website

[http://www.cipfanetworks.net/governance/documentation/default\\_view.asp?library=158&category=1257&content\\_ref=13355](http://www.cipfanetworks.net/governance/documentation/default_view.asp?library=158&category=1257&content_ref=13355) .

### **Local Government Measure (Wales)**

This measure has been passed by the Assembly and is waiting for royal assent. The measure requires all Welsh local authorities to establish an audit committee with at least one lay member. The required responsibilities of the committee include:

- To review and scrutinise the authority's financial affairs,
- Make reports and recommendations in relation to the authority's financial affairs,
- Review and assess the risk management, internal control and corporate governance arrangements of the authority,
- Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements,
- Oversee the authority's internal and external audit arrangements, and
- Review the financial statements prepared by the authority.
- Such other functions as the authority considers suitable.

Details of the measure are available on the assembly website

<http://www.assemblywales.org/bus-home/bus-legislation/bus-leg-measures/business-legislation-measures-localgov.htm>

### **Consultation – The Future of Local Public Audit, Local Government, England**

After its announcement last August that the Audit Commission would be disbanded, the Department for Communities and Local Government have published a consultation document on the future of local public audit. The consultation period is open until 30<sup>th</sup> June 2011. The consultation document is available on the CLG website

<http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult>

The consultation covers the commissioning of local public audit services including the role of the audit committee. It includes options for the structure of the audit committee and their duties in relation to the engagement of external auditors. Also considered is the scope of external audit and whether there should be a conclusion on value for money in addition to the opinion on the financial statements.

## **The Bribery Act**

The 2010 Bribery Act comes into force 1 July 2011. The Audit Committee role is to oversee that the organisation has identified what needs to be done and is taking suitable action. This should be proportionate to the risk which is influenced by the organisation's activities, locations and size.

The Audit Committee can look for what action has been taken in 6 particular areas:

- Proportionate procedures - clear, practical, accessible, effectively implemented and enforced
- Top-level commitment – showing that the organisation is committed to tackling bribery and helping to create an anti-bribery culture
- Risk assessment – bribery risks evaluated and kept up to date
- Due diligence – proportionate processes are in place to mitigate risks
- Communication (including training) – demonstrating the anti bribery stance both externally and internally, informing staff, enhancing prevention and acting as a deterrent
- Monitoring and review – to keep anti-bribery “live” with periodic re-evaluation to assess whether what is in place is appropriate.

It is worth noting that there is mandatory exclusion from public procurement if a business or its directors or any other person who has powers of representation, decision or control over it, has been convicted of bribing, being bribed or bribing a foreign public official. Exclusion is discretionary for conviction of failure to prevent bribery.

The CIPFA Better Governance Forum Counter Fraud Documentation website [CIPFA Better Governance Forum - CIPFA Networks - Documentation](#) contains these helpful documents:

Bribery Act Briefing – CIPFA BGF

Model Anti Bribery Policy and Procedures – CIPFA BGF

Information Note for Those Charged with Governance – CIPFA BGF

Guidance - Ministry of Justice

Quick start guide - Ministry of Justice

Joint Prosecution Guidance - Serious Fraud Office/Director of Public Prosecutions

The link to the actual Act itself is:

[http://www.opsi.gov.uk/acts/acts2010/ukpga\\_20100023\\_en\\_1](http://www.opsi.gov.uk/acts/acts2010/ukpga_20100023_en_1)

## **Housing Finance, treasury management implications**

Those audit committees undertaking the role of scrutiny of treasury management will need to be aware of forthcoming changes to housing finance. Government proposals will replace the existing system with a new 'self-financing' system intended to provide greater freedom and transparency to housing organisations. However, the financial implications of these changes are complex and will have significant implications for debt portfolios and the General Fund of Local Authorities.

These reforms will be implemented on 1<sup>st</sup> April 2012 and at this date there will be a huge demand for capital financing and there will be many Authorities taking on debt for the first time – therefore the importance of long term decisions which will need to be taken cannot be understated. CIPFA will be supporting financial professionals through this time with guidance and seminars (starting in London in July) issued jointly from the Housing Advisory and Treasury Management Networks.

## **Treasury Management Essentials**

A new briefing is coming out in the summer from CIPFA's Treasury Management Panel. This short guide will help those Members involved in the scrutiny of treasury management with summaries of the key principles and practices and a helpful pointer to other guidance



documents. It will be available on the CIPFA, Better Governance Forum and Treasury Management Network websites when it is published.

### **Risk Governance**

The Better Governance Forum has produced a new Risk Management Guidance Note on Risk Governance. It includes a review of current standards and expectations on risk governance and looks at current trends across the sectors. It covers leadership of risk management, structures and the role of the audit committee. A series of questions will help organisations evaluate their current arrangements.

A copy of the guidance note will be available on the website soon.

### **Big Society**

CIPFA is developing briefings and resources to help turn the ideas of the Big Society into practical reality. CIPFA's focus is in three main areas:

- Modernising commissioning;
- Developing social enterprises; and
- Supporting charities and civil society organisations.

Further information and resources are on the CIPFA website.

<http://cipfa.org.uk/big society/index.cfm>

### **Improving Access to the Better Governance Forum website for Audit Committee Members**

We have created a dedicated web page containing the essential reference material required by audit committee members. It includes previous issues of Audit Committee Update and other key resources.

If you haven't registered on the website yet simply go to

<http://www.cipfanetworks.net/governance/auditcommittees/> and select 'register' when you are asked to log in.

If your organisation is a Better Governance Forum subscriber then you can access all the information on our website.

## The Audit Committee Cycle

### **Reviewing the Annual Governance Statement, Statement on Internal Control or Statement on Internal Financial Control**

Issue 2 of Audit Committee Update contains a guide to the key issues to think about when considering your organisation's annual statement. A copy of Issue 2 (plus all other issues) is available to download from the Better Governance Forum website.

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

### **Audit Committee self –assessment**

It is recommended that the audit committee regularly reviews its performance and keeps track of how its arrangements compare with other organisations. If one hasn't been undertaken in the last year a review now would fit in with the overall evaluation of governance and internal control. There are self-assessment tools available to support this, including:

- A Toolkit for the Local Authority Audit Committees, CIPFA Better Governance Forum.

- The Audit Committee Self-Assessment Checklist, National Audit Office

In addition you might want to consider the headline messages from the audit committee survey. Subscribers to CIPFA's audit benchmarking club have also had the opportunity to benchmark their audit committee arrangements against comparators. If your organisation subscribes your head of internal audit or head of finance will be able to advise you of the results from the end of July 2011.

## **Inductions for new audit committee members**

For the new financial year you may have new members on your audit committee or you may be new to the committee yourself. Induction and on-going training make an important contribution to an effective audit committee. What key knowledge and skills does an audit committee member need? CIPFA is currently considering the results of its recent survey on audit committees about the knowledge and expertise of audit committee members and is evaluating how to provide more support. In the meantime consider your terms of reference and the knowledge required to cover the following fundamental topics:

- Governance framework and annual statements
- Assurance frameworks
- Internal controls
- Roles of auditors, external and internal
- Key financial statements and underlying policies
- Risk Management
- Counter fraud arrangements
- Treasury management (where the audit committee undertakes the scrutiny role)
- Value for money.



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