

**CIPFA Better Governance Forum**

# Audit Committee Update

- helping audit committees to be effective

**Issue 6**

**Partnerships from the audit committee perspective**

**October 2011**

## Introduction

Dear Audit Committee Member

Welcome to our sixth issue.

We have produced these briefings for audit committee members for almost two years now and I hope they are being widely used.

Being an audit committee member is a demanding but interesting role. Committee agendas cover such a broad range of topics that committee members are constantly learning something new. The pace of change in the public sector means that there are always new challenges and new expectations. We hope that these briefings can make the job of audit committee member easier.

In this issue we tackle the subject of partnerships from the point of view of the audit committee. We know this is one of your most challenging areas so I hope this will be a timely resource. I am pleased to feature an article from Paul Hughes of Grant Thornton in this issue also. Paul provides a topical insight into partnerships and how the audit committee can address the challenges.

As ever, we welcome comments and feedback on the briefing. Please let us know what you think.

Best Wishes

Diana Melville  
CIPFA Better Governance Forum

## Future issues of this briefing

The next issue is planned for January and will focus on planning assurance.

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)

We now have a web page dedicated to audit committees featuring the key resources you need. Go to <http://www.cipfanetworks.net/governance/auditcommittees/> to see for yourself.

# Workshops and training for audit committee members in 2011 and 2012 from CIPFA

## **Audit Committees in Wales**

1<sup>st</sup> December 2011, Cardiff

**During 2012 we will continue to run open training events for audit committee members.**

### **Effective audit committees:**

- Role of the audit committee
- Good governance and the audit committee
- Working with internal and external auditors
- Introduction to risk management

### **Advanced audit committees, addressing the audit committee role in relation to:**

- Counter fraud arrangements
- Strategic risk management
- Treasury management
- Value for money

**We will also be developing a new audit committee programme to be launched in March 2012.**

Dates, locations and full programme details will be published on the CIPFA training and Better Governance Forum websites. <http://www.cipfanetworks.net/governance/events/>

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

In house training tailored to your needs is available.

We can provide in house training for audit committees on a range of topics. Key areas are highlighted below:

- Good practice in audit committees
- Understanding good governance
- Audit committee role in risk management
- Working with internal and external auditors
- Reviewing the financial statements
- Counter fraud
- Value for money
- Scrutiny of treasury management
- Partnerships
- Assurance planning

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/>

# The Audit Committee role in partnership governance

## What are the issues?

Partnership working has caused many challenges over the last few years and many of them are around issues that concern audit committees. A lot of effort has gone in to improving the effectiveness of partnerships and partnership governance, but there continue to be challenges. Sometimes the audit committee has only a limited view of partnerships and assurance arrangements can be far from clear.

In our recent survey of audit committees in local government heads of internal audit flagged up partnerships as one of the areas where their audit committee was least effective. Only 3% considered their audit committee to be very effective in assuring partnership arrangements. Details are set out in the table below.

Issue	Very effective %	Quite effective %	Neither effective / ineffective	Quite or very ineffective %
Assuring partnership arrangements	3	23	47	28
Engagement with partners	3	21	49	28

For full details on the survey results see the [commentary](#).

## The Audit Committee role

The audit committee should consider significant partnerships as part of their regular agendas. Key areas of activity are likely to include:

- Assurance on partnership governance as part of the Annual Governance Statement.
- Internal Audit reports on partnership arrangements and key partnerships
- Risk registers and risk management arrangements for partnerships
- Arrangements for counter fraud work or whistleblowing arrangements in the partnerships.

There are many aspects of partnership working that merit review but it is important that the audit committee role is clearly defined to avoid overlap with the work of other committees or bodies. The audit committee role is not to manage the partnership or to scrutinise the policy & decision making by that partnership, although the audit committee would want assurance that these arrangements are in place and operating effectively. For example in local government a scrutiny committee may undertake scrutiny of the policy & performance of partnerships that fall within their area of interest.

### Case Study, the Rotherham Audit Committee

In Rotherham, the Council's Audit Committee has worked with members of the audit committees of partner organisations including Police, Housing and the NHS to create the 'Rotherham Audit Committee'. Part of the remit of the Rotherham Audit Committee is to develop and review the governance arrangements of significant partnerships. As part of this, the respective organisations adopted the Council's partnerships governance model and the joint Audit Committee has regularly reviewed compliance with the model, including assessing the financial management, performance management, decision making and ethical arrangements of the partnerships.

Of specific interest to audit committees will be how partnerships contribute to good governance generally. For example the audit committee will want assurance that there are appropriate arrangements to identify & manage risks, ensure good governance and arrangements for

assurance. They will want to know what arrangements have been put in place to maintain accountability to stakeholders and to ensure there is transparency of decision making.

### **Future developments in partnerships**

As well as maintaining their strategic partnerships, public bodies are likely to develop more complex service delivery arrangements in partnership with other public bodies in response to financial challenges. Getting the governance right for such arrangements needs careful planning. Where an organisation is developing such arrangements, the audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over their own responsibilities in relation to the new service delivery organisation.

### **Reviewing the audit committee's approach**

It is worth reviewing how effective your audit committee is in getting assurance on partnerships and what the audit committee itself contributes to good governance in partnerships. The following challenge questions would be a useful starting point:

#### *Assurance on partnerships*

- Does the assurance framework underpinning the Annual Governance Statement adequately cover partnerships?
- What conclusions on partnership working were made in the Annual Governance Statement? Are there any actions you should be monitoring?
- Are risk management arrangements in place to cover partnership risks? Are they effective?
- What other existing assurances do you have on partnerships, for example the internal audit annual report?
- Has the organisation identified all its significant partnerships? Is the list up to date?

#### *Supporting good governance in partnerships*

- What advice or policy is available to cover partnership governance arrangements? For example, many have a 'protocol' or handbook that sets out who is responsible and what should be put in place.
- Find out what the audit committees of partner organisations do in relation to the partnership. Perhaps there are opportunities to work together?
- Consider whether decision making in partnerships is transparent and whether accountability is clear.
- Consider whether the initiatives that your organisation takes to improve governance should also be developed within the partnership. For example if you undertake ethical awareness training, could that be extended to the partnership?

### **Further information**

The following references provide further resources on partnership governance.

[Best Value Toolkit](#), Effective partnership working, Audit Scotland

[Governing partnerships](#), Audit Commission

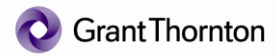
Risk management guidance note number 11 – [partnership risk management](#),

Diana Melville

Governance Advisor

# Partnership Working: translating ambition into success

**Paul Hughes, Director, Public Sector, Grant Thornton UK LLP**



## **Introduction**

Partnership is a word that can mean different things to different people. In a public sector context it has been used to describe such things as shared management teams, shared services, strategic partnering, joint ventures and other incorporated delivery vehicles, unincorporated partnerships, commissioning, outsourcing, co-design, co-production, and even straight forward contracting arrangements. At times it seems that it can be used to describe any activity where one individual or organisation works with another.

The present Government's policies, such as those relating to the Big Society and Open Public Services agendas, alongside the deficit reduction programme, are ramping up the need for public sector organisations to consider - more seriously than ever before - alternative forms of service delivery with other public sector bodies, the private sector and civil society organisations, including possible "spin offs" from their own organisation.

As local authorities and other public sector organisations react to the challenges of the Government's policy agenda and the financial imperatives of the Spending Review 2010, Audit Committees must respond to associated challenges. This includes having the necessary assurances that the governance and risk arrangements required for all the various types of partnership activity are fit for purpose.

## **How have partnerships fared so far?**

The previous Government's Total Place initiative identified that the nature and complexity of the outcomes public bodies are seeking to deliver for their localities require them to work together more collaboratively. The Total Place pilots sought to break down barriers between public sector organisations locally - and between localities and Whitehall - to improve the value of the public pound and enhance the experience of customers receiving services. Whilst the present Government has only supported a handful of the recommendations that came out of Total Place, such as Community Budgets, the momentum for improved partnership and collaboration has been sustained in many areas.

Shared service arrangements, for back office services such as IT, internal audit, revenues and benefits, and payroll have had a mixed success in the past, but are now very much back on the agenda. This includes public-to-public shared services, and the outsourcing of support service provision to private sector partners.

There are some high profile examples of the planned merger of front line service delivery (such as the Tri-Borough partnership of Hammersmith and Fulham, Westminster, and Kensington and Chelsea) and even full scale "constitutional" mergers (such as that being progressed by Babergh and Mid Suffolk District Councils). Even more radically, the wholesale outsourcing of services has been considered by authorities such as Essex and Suffolk County Councils.

Whilst there have been successes in terms of quantifiable improvements in efficiency and / or outcomes, there have also been some less successful partnerships. Common difficulties include a failure to realise savings and other benefits from the partnership business case or significant overspends on major projects where the public sector has partnered with the private sector.

In summary, partnership working is not an end in itself but, when done well, makes a positive contribution to capacity and improves performance, value for money, and the quality of services provided to customers.

## What should Audit Committees be doing?

Partnership governance forms part of the complex governance arrangements of large, multifunctional public sector bodies, and historically there has been room for improvement. For example, the former Use of Resources assessments (carried out by external auditors of local authorities and NHS bodies) often cited underdeveloped partnership governance arrangements as a reason for not awarding higher scores.

The diversification of public service delivery, as set out in the Government's *Open Services White Paper*, is likely to see a proliferation of smaller and less experienced public service providers with more SMEs, charities and social enterprises entering the market alongside larger private sector providers. The White Paper also acknowledges that the risk of failure among providers of public services is likely to increase, as minimum standards and expectations required of providers increase, for example, by the use of outcome based contracts and payment by results. The recent collapse of Southern Cross, and its impact on 31,000 care home residents, has brought this challenge to wider public attention.

As partnerships bring risks as well as opportunities, public sector bodies must ensure they have robust corporate governance arrangements in place, and that there is clear accountability between partners. Audit Committees need to be clear about what assurances they need; which could include:

- A clear understanding of who the organisation's significant partners are
- appropriate appraisal processes are in place to ensure that detailed partnership business cases are developed and scrutinised effectively
- a clear understanding of the anticipated outcomes, savings, and other benefits from the partnership – how it adds value - in a document that has been signed off by all partners
- a realistic assessment of the risks and potential conflicts, and agreement on how they will be managed
- an appropriate performance management framework to monitor delivery, providing accurate and timely management information for transparent and informed decisions
- clear contractual arrangements, for example, setting out how risks and rewards are to be shared between partners
- all legal and statutory requirements have been fully complied with
- all ethical standards have been complied with, such as registration and declaration of partners' interests
- there is strong client side experience, with clear ownership and oversight of delivery, including effective contract and project management arrangements
- there is a properly constituted partnership board with effective and clear leadership
- contingency plans to ensure continuity of service in the event that something goes wrong

Partnership governance should be high on the agenda of Audit Committees and they will need to determine how these assurances are provided. For example, this could be a requirement for separate risk registers to be maintained for each significant partnership, or the establishment of a member sub-group to monitor partnership arrangements, particularly during the set up and early operational stages. Annual Governance Statements should explicitly record the governance framework and assurances received in respect of significant partnerships.

As we move into an era where more and more services are likely to be delivered with or by third party organisations, it will be essential that Audit Committees seek the same assurances - and gain at least the same level of confidence on factors such as service quality and continuity, value for money and probity - as they would do if the service was being fully delivered in-house.

Ultimately, public sector bodies remain accountable for the use of taxpayers' money, regardless of who provides a service on their behalf. It is therefore the responsibility of public sector bodies, supported by their Audit Committees, for ensuring the success of partnership working, in whatever form it takes.

# Developments you may need to know about

## **Better Governance Forum commentary on the CIPFA audit committee survey**

In the last issue we featured highlights from the recent survey on audit committees in local government. A more comprehensive report and commentary is now available from the website. The survey will be a useful resource for those wishing to evaluate the make up, terms of reference and effectiveness of their committee. [Commentary](#)

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

This measure now has 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.

It is understood that a commencement order will be issued in April 2012.

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>

## **Local Audit in England**

The government has requested the Audit Commission to outsource all local public audits currently carried out by the Audit Commission's audit practice. The contracts should be in place by September 2012. Further details of the timetable are available from the Audit Commission [website](#).

This development means that local authorities will not be appointing their own external auditors just yet. The government's consultation has now closed but it is not yet known when the government will publish its bill.

## **The Communities and Local Government Select committee report on local audit**

The select committee have published their report following their scrutiny of the government's proposals. The committee have set out four principles of public audit that they believe should shape future arrangements. The principles are:

- Auditor independence must be strictly maintained;
- Local audit committees must have a majority of independent members;
- Additional safeguards are needed to ensure the continued effectiveness of public interest reporting, and
- The scope of local government audit should be proportionate and risk based. It should allow for local innovation and application, particularly with regards to local value for money work.

The report is available on the website, [Select Committee Report](#).



## **Quality of external audit**

The Financial Reporting Council (FRC) publishes their assessment of the quality of major firms of external auditors. The Audit Commission has also published its review of audit quality and published its assessment of the work of its own Audit Practice. This assessment also draws on the assessment carried out by the FRC. You can view the reports relating to your external auditor on the FRC website and Audit Commission website.

[Financial Reporting Council](#)

Audit Quality Review Programme, [Audit Commission](#)

## **Effective scrutiny of treasury management**

A number of audit committees have taken on the role of providing scrutiny of treasury management following the updated CIPFA Code of Practice in treasury management in 2009. The role can also be undertaken by a scrutiny committee or other non-executive body.

The Better Governance Forum and the Treasury Management Network have developed a self-assessment document that committees undertaking scrutiny of treasury management can use. The document has been endorsed by CIPFA's Treasury Management Panel.

The self-assessment will help those undertaking the scrutiny to identify whether they have the support and training necessary to undertake this role and encourages the development of good practice. It is available to download from the Better Governance Forum website. [Assessment of Effective Scrutiny](#).

## **Risk Governance**

A new risk management guidance note has been developed by the Better Governance Forum. It emphasises the importance of the governance arrangements in relation to risk. In particular it considers the role of the Board or Leadership Team in taking responsibility for strategic risks and showing leadership in risk management. The importance of effective challenge as part of the process of identifying and assessing risks is also emphasised. The audit committee is not responsible for the effectiveness of risk management but has a valuable role to play in having oversight of how the organisation manages its risks and also contributing to the challenge process.

The document includes challenge questions to support a review of your own arrangements. It is available on the website. [Risk governance](#).

## **New guidance on Risk Appetite – launched September**

The Institute of Risk Management launched a new guidance document on Risk Appetite and Tolerance in September 2011. The document outlines an approach that is applicable for both public and private sectors. The document includes a number of questions aimed at the boardroom.

The Better Governance Forum will be working with the Institute of Risk Management to encourage the development of the approach in the public sector.

## **Fraud Risk Evaluation Diagnostic (FRED 2)**

In CIPFA's survey of audit committees in local government we asked whether audit committee agendas included an assessment of the fraud risks their organisation faced. Only 41% of councils responded that they did.

The Better Governance Forum has developed a new tool to support organisations with their fraud risk evaluation. The purpose of FRED2 is to enable practitioners such as risk managers, internal auditors, finance managers and counter fraud specialists, obtain an understanding of the susceptibility to fraud & corruption in their organisation. It prompts the use of seven sources for

information to identify areas at risk from fraud. It has been designed to complement the CIPFA Better Governance Forum's Managing the Risk of Fraud (the 'Red Book').

## **Open public services white paper**

In July the government published its white paper. The paper has 5 principles for reforming public services, including '**Ensuring accountability and responsiveness of public services.**' The main approach to improving accountability is by ensuring that information about providers is transparent and accessible and that users and public servants have more choice and discretion in deciding who should deliver them. CIPFA Networks have produced a briefing on the white paper. [CIPFA Networks Briefing](#). A webinar is also available to view.

## The Audit Committee cycle

Agenda items you may be considering during your meetings over the next few months could include the following items.

### **Risk Management**

If your agenda contains strategic risk registers or if you review the effectiveness of the risk management process then you will have the opportunity to consider the governance of risk arrangements and other aspects. Audit Committee Update [issue 4](#) focused on risk management so this is a useful resource for you, together with the [Risk Governance](#) guidance note.

The Risk Advisory Group has also developed a generic list of risks and opportunities associated with organisational change. This may support the audit committee in reviewing their own registers or providing strategic challenge. [Risks and opportunities from organisational change](#).

### **The budget cycle and planning service efficiencies**

Most public sector organisations will be facing another challenging budget cycle and will need to plan for changes to services and find savings to balance the budget. The audit committee role is not to develop the budget or to scrutinise budget proposals. However there may be issues on which the audit committee would wish to have assurance. Key aspects to consider:

- Does the organisation have a strategy for delivering value for money from its services?
- Where savings are proposed is the impact on service clear to the decision makers? Will a budget cut lead to a reduction in service or will efficiency be improved (delivering more for less)?
- Are the risks to good governance from service changes or reductions being identified? Are there any likely consequences for the Annual Governance Statement?

### **Internal Audit – Mid year review**

Committees will typically consider the performance of internal audit half way through the year. Are they on target to achieve the plan? Given the level of change that many public sector organisations are going through it is worth considering the impact on internal audit and the level of assurance that is being delivered.

- Has there been a change to the resources available to internal audit?
- Have new risks and areas for audit been identified? What impact will this have on the plan?
- Do the audit opinions delivered so far show any cause for concern? Are there any common threads indicating wider governance risks within the organisation?

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