

CIPFA Better Governance Forum

Audit Committee Update

Helping Audit Committees to Be Effective

Issue 24

The Audit Committee Role in Risk Management

Regular Briefing on Current Issues

February 2018

Introduction

Dear audit committee member,

This is the 24th issue of Audit Committee Update and our main focus this time is on the contribution the audit committee can make to supporting good risk management practice.

Risk forms a key part of an audit committee's terms of reference. It is an agenda item in its own right with committees typically reviewing risk registers or receiving an annual assessment of the risk management arrangements. Risk also underpins much of the work of internal audit, with a risk-based plan and annual assurances on the management of risk. Evaluation of future risks also supports the development of an action plan for the annual governance statement.

The remainder of this issue focuses on keeping you up to date with new developments with our regular briefing and links to relevant reports and guidance.

Overall I hope you will find this issue interesting, informative and helpful in your work on the committee.

Best wishes

Diana Melville

CIPFA Better Governance Forum

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Receive our Briefings Directly

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

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. To register now, please visit www.cipfa.org/Register.

Support for audit committees

Links to all CIPFA resources, guidance and training details can be accessed by a dedicated page on the [CIPFA website](#).

Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. Click on the links below to find what you need.

Principal Content	Link
Issues from 2010 and 2011- the content in these issues has been replaced by more recent issues	
Issues from 2012	
Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
Commissioning, Procurement and Contracting Risks	Issue 8
Reviewing Assurance over Value for Money	Issue 9
Issues from 2013	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
Local Audit and Accountability Bill, the Implications for Audit Committees Update of CIPFA's Guidance on Audit Committees	Issue 11
Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	Issue 12
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
External Audit Quality and Independence, Government Consultation on Local Audit Regulations, CIPFA's Consultation on a new Counter Fraud Code, Regular Briefing on Current Issues	Issue 14
CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, The Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments	Issue 15

Issues from 2015	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	Issue 19
CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	Issue 20
The Audit Committee and Internal Audit Quality, Briefing on Topical Issues	Issue 21
Issues from 2017	
Developing an Effective Annual Governance Statement, Regular Briefing on Current Developments, Audit Committee Training	Issue 22
2017 edition of the Public Sector Internal Audit Standards, Understanding the Risks and Opportunities from Brexit, Recent Developments and Resources	Issue 23

Workshops and Training for Audit Committee Members in 2018 from CIPFA

Introduction to Police Audit Committees

This event is particularly suitable for new members of Police joint audit committees. It includes an overview of the roles, responsibilities and core functions of the committee, together with sessions on working with the internal and external auditors.

3 May London

Introduction to the Knowledge and Skills of Local Authority Audit Committees

This event features key areas that are core to the work of the committee: risk management, governance and assurance.

20 September London

Developments day for police audit committees

These events are suitable for members of the joint audit committees supporting police and crime commissioners and chief constables. These events are run in conjunction with CIPFA's Police Network and feature topical developments and briefings.

19 September 2018, York

20 September 2018, London

Development day for local authority audit committees

The workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role.

5 December 2018 London, further dates and locations in January and February 2019.

CIPFA events information and dates are available on the website: www.cipfa.org/Events.

In-house training and facilitation

In-house audit committee training and guidance tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

For further details contact our [in-house training team](#) for more information or call 020 7543 5600.

The Audit Committee Role in Risk Management

This article will outline the key role an audit committee should play in supporting and reviewing risk management in its organisation. The article will outline first of all what risk management is all about and then consider the audit committee role. It will end with some key questions that audit committees might like to consider.

What is risk management and why is it important to the organisation?

The British Standard ISO 31000:2009 defines risk management as 'coordinated activities to direct and control an organisation with regard to risk'. Risk is simply defined as the 'effect of uncertainty on objectives'.

Effective risk management has a number of benefits to an organisation and is now seen as a key tool across public and private sectors. Management of risk enables an organisation to:

- increase the likelihood of achieving objectives
- improve governance and accountability
- support better decision making
- comply with legal and regulatory requirements
- improve operational effectiveness and efficiency.

These benefits demonstrate that risk management isn't just about dealing with problems better; it is also an aid to improvement. As well as identifying risks an organisation is encouraged to identify opportunities.

How does risk management link to internal control and governance?

The importance of risk management in supporting good governance is clearly set out in the principles of the [International Framework: Good Governance in the Public Sector](#) and [Delivering Good Governance in Local Government: Framework](#). One of the seven principles is 'Managing risks and performance through robust internal control and strong public financial management'. The frameworks both emphasise the importance of risk management for the successful delivery of services and achieving outcomes.

The internal controls of an organisation should be influenced by the risks. An effective control will manage an identified risk, perhaps by reducing the likelihood of the risk happening, or minimising the impact if it did. When controls are reviewed their success in managing those risks should be considered. Sometimes controls are put in place to manage risks but continue to operate even though the risk has changed or other controls now address the risk. This can lead to inefficiency or ineffective control.

What is the typical role for the audit committee?

The precise roles and responsibilities towards risk management will vary according to the terms of reference. [CIPFA's Position Statement on Audit Committees in Local Authorities and Police](#) identifies the following core functions:

- ensuring there is assurance over the governance of risk and top level ownership and accountability
- keeping up to date with the organisation's risk profile and the effectiveness of risk management actions
- monitoring the effectiveness of risk management arrangements and supporting the development of good risk management practice.

The ways that an audit committee fulfils these functions are likely to include:

- oversight of the risk management function and its effectiveness. For example, the committee could consider whether there is top level support for risk management from the leadership team and the committee could review assessments of risk management or the results of benchmarking.
- reviewing risk management annual plans, annual reports and the assessment of risk maturity of the organisation
- commenting on changes to the risk management policies of the organisation
- understanding the key risks facing the organisation, by reviewing risk registers or receiving briefings on key risk areas.

As well as supporting effective risk management, knowledge of the organisation's key risks helps the committee discharge its other responsibilities such as reviewing the internal audit plan or reviewing the annual governance statement.

How can the audit committee support and encourage the effectiveness of risk management?

This is a valuable role for the committee. Good understanding among audit committee members of what risk management can and should be doing will help to raise the profile of risk management across the organisation. By monitoring the performance of risk management and any obstacles to improvement, the audit committee can help to ensure the adoption of good practice across the organisation.

When the audit committee reviews the organisation's key risks it may want to seek assurance that the actions being undertaken are having an effect. If there are concerns about critical risks then questions from the audit committee can help to ensure that the appropriate action is taken.

Understanding the organisation's key risks and the overall risk profile can help the audit committee take a more co-ordinated approach to its assurance statements. This can help those working in risk management too. For example, the committee can consider what assurance it receives about the major risk areas.

Some audit committees undertake regular 'deep dives' examining a major service or risk area in detail. With the responsible service director they review the objectives, risks, challenges and opportunities for that service. The committee then considers the available assurances on that area. Such an approach helps to build a mature understanding of the risk and control issues in an operational area, enabling the committee to consider internal audit reports and risk registers with more knowledge.

Assurance on risk management

To fulfil its terms of reference and to support the annual governance statement, the audit committee should seek assurances on the adequacy and effectiveness of risk management. The audit committee might receive some assurances from the risk management function directly such as the examples below:

- self-assessment using a risk maturity model
- participation in risk management benchmarking
- in-house survey or feedback.

The audit committee should also receive independent assurance. Internal audit is required to deliver an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. As a result, internal audit will carry out assurance work on risk management to support the head of internal audit's opinion. The audit committee should seek to understand the audit engagements planned for the year and subsequently review the conclusions and recommendations arising from the audit.

Risk management beyond the organisational boundaries

Increasingly public bodies work collaboratively with other organisations and may also develop a range of governance structures for the delivery of services, for example shared services and trading companies. Even a short-term informal partnership might mean changes to the usual decision-making and risk management processes. It is an important role for the audit committee to maintain oversight of the governance and risk management arrangements that are put in place for the development and implementation of such arrangements.

Strategic risk management provides the audit committee with the opportunity to influence and support good governance in the organisation. Robust support from the audit committee for the risk management process is an important factor in ensuring that the organisation is able to identify, manage and account for its risks.

Key Questions to ask:

1. How consistently is the risk management policy applied across the organisation? What is being done to address any weak areas?
2. Has the risk maturity of our organisation been assessed? In what areas have we improved in the last year and what still needs to be done?
3. What are the major risks facing the organisation?
4. How effectively are risks being managed in a particular area? For example, a major project, change programme or key strategic service.
5. How do we get our assurance about the management of risks and how does this link to the annual governance statement?

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CIPFA Better Governance Forum

Recent Developments You May Need to Know About

Regulations and consultations

Treasury Management Code of Practice and the Prudential Code

Those audit committees that have taken on the responsibility for the scrutiny of treasury management should be aware of the new codes issued by CIPFA in December 2017. While the treasury management code is applicable to all public sector organisations, local authorities in England, Scotland and Wales are required to 'have regard' to the codes.

[Treasury Management in the Public Services](#)

The objectives of the Prudential Code are to provide a framework to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable.

[The Prudential Code for Capital Finance in Local Authorities](#)

Ethical standards in local government

The Committee on Standards in Public Life has issued a consultation on whether the current ethical standards arrangements are conducive to high standards of conduct in local government. The consultation invites submissions from local authorities, members, officials and members of the public. The closing date is 18 May 2018. [Local government ethical standards](#)

Reports, recommendations and guidance

CIPFA Position Statement on Audit Committees in Local Authorities and Police

CIPFA has updated its position statement and supporting guidance for audit committees. The new edition will be published soon and will align with the guidance the Home Office is planning to provide on audit committee arrangements when a police and crime commissioner takes on the responsibilities of a fire and rescue authority. As a result the publication is being delayed until the Home Office issues its own statutory guidance. Full details of the publication are available from [CIPFA publications](#).

CIPFA briefing on 2016 annual governance statements

CIPFA reviewed statements published in 2017 which were the first to be made under the 2016 edition of *Delivering Good Governance in Local Government: Framework*. The briefing identifies the features of an effective statement and shares examples.

Further details of what the audit committee should look for in an annual governance statement are available in [Issue 22](#) of Audit Committee Update. [CIPFA Briefing](#)

Report on the Results of Auditors' Work 2016/17

Public Sector Audit Appointments (PSAA) has published reports summarising the outcome of external audits in the health and local government sectors in England for 2016/17. The reports cover the timeliness and quality of financial reporting and auditors' local value for money work. Key findings include the following:

- auditors at 92% of councils and 100% of police bodies were able to issue the opinion on the accounts by 30 September 2017
- there were no qualified opinions on the accounts issued to date to principal bodies
- 7% received a qualified conclusion on value for money
- a handful of accounts had still not been signed off as at December 2017.

Key findings in relation to health include:

- 99% of NHS trusts and 100% of clinical commissioning groups (CCGs) had their audit opinion issued by the deadline
- no trust or CCG received a qualified opinion on the accounts
- 19% of trusts and 4% of CCGs received an adverse opinion on value for money.

[Report on the Results of Auditors' Work 2016/17: Local Government and Health Bodies](#)

Local Government Financial Reporting 2016-17

The Wales Audit Office issued unqualified audit opinions on 39 out of 41 financial statements by 30 September 2017, with two remaining unresolved. Overall quality of financial statements has improved but there remains scope for improvement. [Local Government Financial Reporting 2016-17](#)

Local Government in Scotland: Financial Overview 2016/17

The report from the Accounts Commission finds that Scottish councils are showing increasing signs of financial stress. All councils received an unqualified audit opinion on their 2016/17 accounts but auditors found that in several councils financial management could be improved. [Audit Scotland](#)

CIPFA Fraud and Corruption Tracker

In 2017 CIPFA undertook a survey of levels of fraud and corruption detected across local authorities. The results of the survey provide a valuable insight into current levels of detected fraud and corruption and can be downloaded from the CIPFA Counter Fraud Centre. [2017 Report](#)

Effectiveness of Local Authority Overview and Scrutiny Committees

A report from the Communities and Local Government select committee has been published following their inquiry into scrutiny arrangements. The report does not address audit committees but some of the challenges facing scrutiny committees in the report may also apply to audit committees. When reviewing the adequacy of governance for the annual governance statement the report may highlight areas for improvement. [Select committee report](#)

Local Public Accounts Committees

The Centre for Public Scrutiny has issued a [discussion document](#) outlining the role that local public accounts committees could play in enhancing local accountability for value for money. The Centre is seeking responses by 23 March.

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