CIPFA

Audit Committee Update

Helping audit committees to be effective

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Oversight and support of internal audit – the role of the audit committee

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Introduction

Dear audit committee member,

Welcome to the latest issue of Audit Committee Update from the CIPFA Better Governance Forum. This resource aims to support audit committee members in their role by helping to keep them up to date.

In this issue, we consider the forthcoming changes to the internal audit standards and consider how that will impact on audit committee members. CIPFA will be issuing more updates and resources over the next few months. Ask your head of internal audit for the latest position.

There is also a summary of resources and links to help audit committee members in their work.

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

Best wishes,

Diana Melville
CIPFA Better Governance Forum

Sharing this document

Please circulate this briefing widely to your organisation's audit committee members and colleagues. It can also be placed on an intranet.

Audit Committee Update is covered by CIPFA's copyright and so should not be published on the internet without CIPFA's permission. This includes the public agendas of audit committees.

This issue is open to all, but other issues of Audit Committee Update are restricted to the organisations that subscribe to the Better Governance Forum.

Receive our briefings directly

A link to this briefing will be included in the CIPFA Better Governance Forum subscribers' newsletter. It can then be shared with that organisation's audit committee members.

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

Internal audit standards

Changes impacting on your internal audit service

This article will help audit committee members understand the changes to internal audit standards and the transition your team will be making.

What's changing and when?

From 1 April 2025 internal audit teams in the public sector will be working to new internal audit standards. These will be a combination of the Global Internal Audit Standards (GIAS) and the Application Note, Global Internal Audit Standards in the UK Public Sector. The consultation on the Application Note closed at the end of October, and it is anticipated that the final version will be published before the end of the year.

How significant a change is this?

It is a significant change that will mean your internal audit team must update their charter and audit manual to reflect the new standards. They will also need to provide training to team members. They will need to review their working practices to make sure they comply with the standards or have an action plan to achieve that conformance.

While much of the day-to-day practice of undertaking audit engagements will not change, the team will need to make sure those engagements fulfil the new standards. Reports, plans and charters will need to be updated to reflect the standards.

Do the standards expect more from the team?

An internal audit team that fully conforms with the current standards (the Public Sector Internal Audit Standards or PSIAS) should have most of the practices it needs. There are some additional requirements, and the Application Note should help with those. But time will still be needed to make the transition and build familiarity. The introduction of new standards is an opportunity to look ahead to see what both the team and the organisation need.

Examples of changes:

- One of the new requirements is a 'mandate' for internal audit (Standard 6.1). However in local government, internal audit's primary mandate comes from statutory regulations issued by the national governments. Most internal audit charters already refer to this mandate in their charters. With some changes, an up-to-date mandate and charter can be agreed.
- GIAS Standard 9.2 requires an internal audit strategy. This is new, but the service should be able to build on the existing requirement in PSIAS (2010 Planning) for a strategic statement of how the service will be delivered and developed.
- The standards on ethics and professionalism have been expanded including new sections on professional courage and professional scepticism. This will require training for the team.
- Internal audit plans (Standard 9.4) should support the achievement of the organisation's objectives. Many teams already demonstrate that link.

Each head of internal audit should be able to update the audit committee on the specific work they need to undertake.

How can the audit committee know if the internal audit service conforms with the new standards?

The standards come in on 1 April 2025 and the first evidence of their use is likely to be the update of the charter, including the mandate, the audit strategy and plan. Each of these will be brought to the audit committee for agreement.

As the 2025/26 year progresses the service will gradually be able to evidence their conformance with standards:

- Engagements will be completed and reported to the client in accordance with the standards.
- Updates to the audit committee will include not only issues arising from engagements, but other matters required by the standards, such as significant changes to audit plans.
- Progress updates on the transition.
- At the end of 2025/26, when the head of internal audit completes their annual conclusion and report, they should be able to assess whether they are fully conforming with the standards and identify any improvement areas.

It is important to realise that no internal audit team will be fully in conformance with the standards on 1 April 2025/26. Until audits are completed and the outcomes reported, the evidence of practical conformance will not be there. Your head of internal audit should be able to update you on progress.

Will the service need to go through a new external quality assessment?

The standards continue to require an external quality assessment (EQA) at least once every five years. You don't need to amend your cycle, so if the service had an EQA two years ago, then the next will be due in three years' time.

If the EQA is due in 2025, then this will present some practical problems. Until engagements are completed and reports made to the audit committee etc, the evidence of conformance will not be there, even though methodologies may be in place. The assessment will be more relevant at the end of the year.

If you buy in internal audit services or use an audit partnership rather than have an in-house team, then a different approach to the EQA will be needed. The standards require the EQA to consider all aspects of internal audit, including its governance. An internal audit provider's EQA will need to be specific to each client, or each client will need to commission their own EQA. As the standards are implemented EQA providers will amend their approach.

Does the audit committee need to change?

Possibly.

To achieve conformance with the standards the organisation will need to demonstrate that all aspects of the standards are met, including the governance of internal audit. This covers the oversight and support for internal audit from the audit committee and senior management.

To assist local government bodies achieve conformance, CIPFA will be introducing a new Code of Practice on the Governance of Internal Audit in Local Government (the Code). This is currently out for consultation until 28 November. The Code draws on existing CIPFA guidance for audit committees and support for the head of internal audit in public sector organisations and aligns these with the expectations that are set out in the GIAS. Further

details on how the Code aligns are in Comparison of Code to existing guidance. CIPFA welcomes comments from audit committee members on the consultation.

If your audit committee is currently working to CIPFA's recommended practice for audit committees in local government, then the provisions of the Code should be achievable. The terms of reference of the committee should be updated to make this clear.

If you have new members on the committee, or you are not sure about your responsibilities towards internal audit, then training or briefings will help. When you prepare your annual report for the committee, or conduct an effectiveness review or self-assessment, the committee should reflect on how well it fulfils the Code and whether actions are needed to support internal audit more.

After the Code is finalised, CIPFA will provide a separate briefing for audit committee members.

Some suggested questions for audit committee members

The following questions will help you understand how the changes to internal audit standards affects your internal audit service:

1. What steps are being taken to prepare the internal audit service for the implementation of new standards?
2. Does the service have the support it needs from the organisation to make the transition?
3. Does the head of internal audit have any concerns about achieving conformance?
   If so, how are these being addressed?
4. What can the audit committee do to support internal audit with the transition?
5. When will the committee next review its own effectiveness, including its role regarding internal audit?

Further reading

CIPFA's guidance to audit committees is supported by the Ministry of Housing, Communities and Local Government (MHCLG), the Home Office and the Welsh Government.

Position statement: audit committees in local authorities and police 2022

Free download

Audit committees: practical guidance for local authorities and police (2022 edition)

The guidance includes a handbook for audit committee members. It is a digital edition and can be shared multiple times within the organisation. Ask your head of internal audit or head of finance to arrange this for you.

Recent developments and resources

Financial reporting and audit in local authorities (England)

Audit committees in English authorities will be aware of new regulations to enforce a backstop date for the completion of outstanding audit reports.

CIPFA has issued Bulletin 18 Local audit backlog in England to explain what this means for local authority audits.

A further set of FAQs to support audit committee members will be issued shortly.

Local government finance workforce action plan

CIPFA collaborated with the Local Government Association (LGA) to examine the key workforce challenges facing the finance profession, including internal audit, in English councils. The report makes recommendations for action at a local regional and national level: Local government finance workforce action plan for England (2024).

Balancing local government budgets in Scotland

A research report from the LGIU and CIPFA to examine how chief finance officers in Scotland are addressing the financial challenges and the actions available to balance budgets: Balancing Local Government Budgets in Scotland (2024).

Guidance for audit committees on cloud services

A resource from the National Audit Office for audit committees explaining cloud services. It provides some questions for audit committees to ask management on strategy, implementation and management of cloud services: Guidance for audit committees on cloud services (2024)

Making public money work harder

Insight from National Audit Office work, including evidence of what works as well as root causes of failure. A helpful resource for considering value for money in areas such as asset management, procurement, reducing fraud and error and making best use of data: Making public money work harder (2024)

Accessing training and networking opportunities

CIPFA would encourage audit committee members to access any available training and networking opportunities. Regional forums for audit committee chairs have been established with assistance from the LGA and Welsh Local Government Association (WLGA), and each of these is running a programme of meetings and training events. CIPFA has been happy to speak at a number of these sessions already, and we will support where we can.

CIPFA's training webinars are listed below, and in-house training delivered locally or by webinar is also available.

Webinars and training for audit committee members from CIPFA

Introduction to the knowledge and skills of the audit committee

The role and responsibilities of the audit committee and key aspects of the terms of reference.

Introduction to the knowledge and skills of the police audit committee

The role and responsibilities of the audit committee and key aspects of the terms of reference.

Understanding local authority accounts for councillors

A webinar to support the review of the financial statements.

Update for police audit committee members

This webinar is suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables.

Update for local authority audit committee members

Full programme details and booking information for webinars will be available on the CIPFA website. Webinars are usually published about eight weeks in advance, but enquiries can be sent to customerservices@cipfa.org at any time.

In-house training for your audit committee

In-house training, webinars and guidance tailored to your needs are available. Options include:

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

Assessing the effectiveness of the audit committee

We can also undertake an effectiveness review of the committee, providing feedback on areas the committee can improve on and supporting the development of an action plan.

For further information, email diana.melville@cipfa.org or visit the CIPFA website for further details on our support for audit committees.

Previous issues of Audit Committee Update

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

Principal content	Link
Please note the content from some earlier issues has been replaced by more recent issues and so they are not listed below.	
Issues from 2012	
Commissioning, procurement and contracting risks	Issue 8
Reviewing assurance over value for money	Issue 9
Issues from 2015	
What makes a good audit committee chair?	Issue 16
The audit committee role in reviewing the financial statements	Issue 17
Issues from 2016	
Delivering good governance in local government: framework (2016), appointing local auditors	Issue 19
CIPFA survey on audit committees (2016)	Issue 20
The audit committee and internal audit quality	Issue 21
Issues from 2017	
Developing an effective annual governance statement	Issue 22
Issues from 2018	
Developing an effective annual governance statement	Issue 25
Issues from 2019	
Focus on local audit, National Audit Office report on local authority governance	Issue 27
The audit committee role in supporting counter fraud and anti-corruption	Issue 28
CIPFA statement on the role of the head of internal audit, external audit arrangements for English local government bodies	Issue 29
Issues from 2020	
CIPFA Financial Management Code, responding to the Redmond Review: results of CIPFA's survey on audit committees	Issue 30
Compendium edition: reviewing the audit plan, self-assessment and improving effectiveness, developing an effective annual governance statement and focus on local audit	Issue 31
The head of internal audit annual opinion for 2020/21, the Redmond Review: issues for English audit committees	Issue 33

Issues from 2021	
The annual governance statement for 2020/21, local auditors and internal audit working together	Issue 34
Supporting improvements to risk management arrangements, defining the relationship between the audit committee and the scrutiny function, new consultation on local audit and audit committee arrangements	Issue 35
Issues from 2022	
New CIPFA guidance on audit committees in local authorities and police, Internal audit: untapped potential	Issue 36
Issues from 2023	
Assessing audit committee effectiveness	Issue 37
Financial risk and the audit committee, the audit committee role in internal audit standards	Issue 38
Issues from 2024	
Assurance and the audit committee	Issue 39

77 Mansell Street, London E1 8AN
+44 (0)20 7543 5600

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