

CAA – Are audit Committees up to the challenge?

Introduction

- 1 On the 18th November 2008 the Divisional Director Audit & Risk and the Service Manager Internal Audit attended a one day learning event hosted by Croydon Council and chaired by Councillor Yvette Hopley, Croydon's Audit Committee Chair.
- 2 Croydon have impressively moved from a 2 out of 4 Use of Resources score in 2006 on Internal Control to a 4 out of 4 score in 2007.
- 3 At the event, guest speakers discussed key aspects of the Audit Committees' role in the light of the introduction of the Comprehensive Area Assessment. This included traditional areas of audit, risk management and fraud in addition to the increasing importance of partnership governance.

National Fraud Strategic Authority and Public Sector Fraud

- 4 The first speaker was from the National Fraud Strategic Authority (NFSA). Their remit is to design an integrated response to fraud – a managed programme across the whole pipeline of counter fraud activity, to challenge fraud in an effective, targeted, joined-up way. They aim to:
 - Identify and manage strategic gaps, risks & dependencies
 - Challenge the performance of the counter fraud community
 - Identify, track & communicate the benefits realised
 - Resolve disputes on delivering the national fraud programme
 - Remove barriers to effective joint action
 - Remove duplication of effort
 - Identify when resources need to be reallocated across the national fraud programme.
- 5 The speaker stressed the key role played by Audit Committees in countering fraud as outlined by both CIPFA and Alarm as follows:
- 6 Audit Committees ... are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.
CIPFA (Audit Panel)
- 7 Poor corporate governance weakens an authority's potential and ... can pave the way for financial difficulties, poor performance, loss of reputation, **fraud** and corruption.
CIPFA (Toolkit for Audit Committee)

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- 8 Managing the risk of fraud ... is of the highest importance for public sector organizations.
ALARM

Aligning Assurance Activities - Deloitte

- 9 The speaker emphasised the traditional duties of the Audit Committee in covering the following areas:
- Internal audit process
 - External audit process
 - Counter fraud and corruption arrangements
 - Risk management
- 10 With regard to the Assurance Framework the speaker stressed that the key areas of concern for the Audit Committee should be:
- ensuring systematic appraisal of the control environment and framework of internal control to provide reasonable assurance of effective and efficient operations
 - ensuring the highest standards of probity and public accountability are demonstrated
 - reviewing arrangements by which staff may, in confidence, raise concerns about possible improprieties, together with arrangements for the independent investigation of such matters
 - reviewing external reports and assessments, which feed into the organisation's assurance framework
 - considering by committee, a programme of areas for scrutiny
- 11 The Audit Committee should also receive and review reports on all aspects of internal control on behalf of the board. However, it is important that the Audit Committee does not duplicate the work of senior management or of any risk management committee.
- 12 Generally, a preferred model would be for the Audit Committee to act as a co-ordinating forum for these interrelated assurance activities and ensure that agreed recommendations on internal control or audit are actually implemented.
- 13 The speaker stressed the following two key issues:
- *The recent COSO exposure draft 'Guidance on Monitoring Internal Control Systems' and the revisiting of 'monitoring effectiveness' - how will the AC get better assurance on the 'effectiveness of controls' from the first and*

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second layers of defence, and if this involves the redesign of controls, what is IA (and EA) role etc (article in Internal auditing Oct '08 refers)?

- *Comprehensive Area assessment (CAA) – how will the AC get assurance regarding value for money achievements, outputs and outcomes, not just for the organisation itself, but also in relation to other organisations, partnerships etc?*

Good Governance in Operational and Strategic Partnerships – Audit Commission

14 The speaker emphasised that the principles of good governance, as follows, are now widely shared across the public sector:

- Focus on purpose and outcomes
- Effective performance - clearly defined roles
- Values & behaviours
- Informed transparent decisions & managing risk
- Capacity & capability
- Engagement & accountability (**particularly in partnerships**)

15 Thinking about the quality of partnerships is not new: “Joint undertakings stand a better chance when they benefit both sides” Euripides, 400BC.

16 Partnerships have been a major driver of government policy in recent years and the Audit Commissions main messages about partnerships have been as follows since 2005:

- Partnerships bring risks as well as opportunities
 - Who manages partnership risks?
- Partnerships bring costs as well as benefits
 - How (and when) do partnerships add value?
- Partnerships find it hard to engage the public
 - Does this matter to service users?
- The principles of good governance are harder to apply in partnerships
 - Who is accountable to whom, and for what?

17 The Audit commission encouraged organisations to think more broadly about accountability in partnerships - *“Shared responsibility should never mean diminished accountability.”*

18 They also encouraged organisations to think about how well they managed the risks in partnerships:

- The role of corporate governance
- The challenges of integration
- The need for high quality data

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- The importance of leadership in partnership

19 All joint working is difficult: the whole system needs to work well:

- Standards/regulations – rules for managing the partnership and its impact
- Systems guiding local decision making – systems to understand and influence risks, performance, and resources
- Synergies working across boundaries - informal and formal social networks, shared services and efficiency projects
- Style/ways of working - management and role of LSP meetings
- Staff and skills, leadership, culture and development - ability and competence of political and officer leaders, LSP support staff skills
- Steering/enabling - performance and finance sub-groups, influence on mainstream spend, pooled or aligned funding
- Super- ordinate goals/wellbeing - improved health and community cohesion are examples of LSP goals

20 The LSP study national report and improvement products provide details about good practice across all 7 elements.

21 LSPs need a layered approach to performance and resource management although some areas have confused the layers.

22 The purpose of an Audit Committee ‘..... *to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process.*’

23 Audit committee responsibilities in respect of partnerships are as follows:

- Council activities
 - Is the Committee aware of the nature and extent of the authority’s partnerships?
- Internal control
 - Are appropriate governance arrangements in place for all the Council’s significant partnerships?
 - Are these arrangements reviewed by internal audit?
 - Do the arrangements deliver value for money?
 - Do partnerships deliver the intended outcomes for the Council?
- Risk management
 - Has the risk of delivering services through each of the Council’s partnerships been assessed?

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- Financial reporting
 - Are governance arrangements reported in the Annual Governance Statement
 - Are the financial results of all key partnerships appropriately reported?

24 The audit and inspection regime assesses partnerships in the following ways:

- Comprehensive area assessment
 - Joined up assessment for joined up local services
 - Focus on outcomes for local people within an area and prospects for improvement
 - Challenging for local partners
- Organisational assessment
 - Assessment of value for money and performance at an organisational level
 - Focus on achievements, outputs and outcomes
 - Includes liaison with stakeholders and delivery through partnership
- Audit of financial statements
 - Annual governance statement
 - Reporting financial results of partners

25 Questions for Audit Committees

- How can your committee best support your council's work in partnerships?
- Do you discuss partnership issues with your counterparts in other public sector bodies?
- Are you aware of the partnerships your council is involved in?
- Are you satisfied that your council's governance arrangements include significant partnerships?
- Do you have access to robust performance and financial data about your partnerships?

26 The speaker stressed that the Audit Commission will focus on authorities' strategic partnerships rather than commercial partnerships.

Embedding Risk Management: New LSP & LAA Arrangements - Croydon Case Study

27 Risk workshops were used as a way of embedding risk management in Croydon's local strategic partnership (LSP). The risk workshops were used to:

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- Engage with LSP Executive or Board
- Engage with partnership managers
- Engage with other agencies
- Be democratic

28 The following common risk themes were identified as a result of the workshops:

- Lack of human resources to support the partnership
- Lack of financial resources to deliver key strategies
- Lack of consistent communication throughout the partnership and to the public
- Emphasis on short term goals at expense of long term investment
- Competing priorities from central government versus local, and between agencies
- Inconsistent performance management and quality of data
- Structure of the partnership and governance arrangements not fit for purpose
- Partnerships not maximising opportunities to work closely with other themes of LSP
- Stability and consistency of partners committing to partnership working
- Inability to understand the needs and engage with the wider community (hard to reach groups)
- Capacity and funding issues with voluntary sector
- Current commissioning framework is unclear

29 Risk registers and action plans to manage risks were also developed as a result of the workshops.

Susan Dixon
Service Manager, Internal Audit
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