

## **WIRRAL COUNCIL**

### **AUDIT AND RISK MANAGEMENT COMMITTEE**

**30 JUNE 2010**

### **REPORT OF THE DIRECTOR OF FINANCE**

#### **CIPFA AUDIT COMMITTEE UPDATE**

#### **1. EXECUTIVE SUMMARY**

- 1.1. This report provides information on the recent developments outlined in the CIPFA Better Governance Forum Audit Committee Update Issue 2 dated May 2010.

#### **2. BACKGROUND**

- 2.1. The CIPFA Better Governance Forum publishes an Audit Committee Update which is aimed at helping Audit Committees to be effective.
- 2.2. Within the update is a section on recent developments. This report provides Members with a note of progress on each of these developments.

#### **3. DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT**

- 3.1. In 2009 CIPFA published a Statement on the Role of the Chief Financial Officer (CFO) in public service organisations. This was followed by the Statement of the Role of the CFO in Local Government. The statement introduced the principle of 'comply or explain' for organisations when undertaking their annual governance reviews. The Application Note to Delivering Good Governance in Local Government: a Framework advises on the application of the Statement on the Role of the Chief Financial officer in Local Government under the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government. It shows how the annual governance statement can reflect compliance with the Statement for reporting purposes.
- 3.2. Wirral Council complies with all of the principles in the Role of the Chief Financial Officer in Local Government as detailed in a report to this Committee on 24 March 2010.

#### **4. CONSULTATION ON THE ROLE OF HEAD OF INTERNAL AUDIT**

- 4.1. The draft CIPFA Statement on the role of the Head of Internal Audit was launched at the CIPFA Audit Conference on 19 May 2010.
- 4.2. The CIPFA Statement has five principles which apply across all public service organisations:

**The Head of Internal Audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:**

1. Championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
2. giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

**To perform this role the Head of Internal Audit**

3. must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
  4. must lead and direct an internal audit service that is resourced to be fit for purpose; and
  5. must be professionally qualified and suitably experienced.
- 4.3. A detailed report on the Role of the Head of Internal Audit should be presented to the next meeting of this Committee.

**5. LAUNCH OF THE EFFECTIVE INTERNAL AUDIT GUIDE**

- 5.1. The guide provides guidance on assurance frameworks and the role of internal audit, how internal audit teams can improve and demonstrate their effectiveness. It includes case studies, improvement tools and links to other resources.
- 5.2. Audit committee members can use this guide to help understand how internal audit should support the achievement of organisation objectives and provide leadership within the organisation. In addition it also highlights how crucial the audit committee is in supporting internal audit.

**6. SEVERANCE AGREEMENTS FOR CHIEF EXECUTIVES**

- 6.1. The Audit Commission recently published a report examining severance payments to Chief Executives in local government. The report, *By Mutual Agreement*, includes recommendations to the Government, Councils and the Local Government Association. The report found that three in every ten departing council chief executives receive compensation for the early termination of their contract and the costs of severance payments for councils can be high. Making a severance payment may be in the best interests of councils and the taxpayer, but the formal processes are not working well.

## **7. COUNTER FRAUD CHECKLIST FOR THOSE RESPONSIBLE FOR GOVERNANCE**

7.1. This new checklist is now available free to Better Governance Forum subscribing organisations. It can be used by those responsible for governance (audit committees or equivalent) to assess their contribution to the fraud defences of their organisation and determine what action is needed.

## **8. FRAUD RISK EVALUATION DIAGNOSTIC (FRED)**

8.1. FRED enables practitioners such as risk managers, internal auditors, finance managers, and counter fraud specialists, to gain an understanding of the susceptibility to fraud and corruption of their organisation. The first part will be available soon.

8.2. It has been designed to:-

- Quickly gain an overview of the susceptibility of the organisation to fraud and to identify the high risk areas
- Maintain an understanding of the level of fraud risk in the organisation over time.
- Aid planning of work designed to combat fraud and corruption and as part of the development of a zero-tolerance culture.

8.3. FRED will also inform the Annual Governance Statement/Statement of Internal Control and help provide information for assessment of internal control by both internal audit and external audit.

## **9. FINANCIAL IMPLICATIONS**

9.1. There are none arising directly from this report.

## **10. STAFFING IMPLICATIONS**

10.1. There are none arising directly from this report.

## **11. EQUAL OPPORTUNITY IMPLICATIONS**

11.1. There are none arising directly from this report.

## **12. COMMUNITY SAFETY IMPLICATIONS**

12.1. There are none arising directly from this report.

## **13. HUMAN RIGHTS IMPLICATIONS**

13.1. There are none arising directly from this report.

**14. LOCAL AGENDA 21 IMPLICATIONS**

14.1. There are none arising directly from this report.

**15. PLANNING IMPLICATIONS**

15.1. There are none arising directly from this report.

**16. MEMBER SUPPORT IMPLICATIONS**

16.1. There are none arising directly from this report.

**17. BACKGROUND PAPERS**

17.1. CIPFA Better Governance Forum Audit Committee Update – May 2010.

17.2. The Role of the Chief Financial Officer in Public Services – CIPFA – June 2009.

17.3. The Role of the Chief Financial Officer in Local Government - CIPFA – 2010.

17.4. Consultation of the Role of the Head of Internal Audit – CIPFA – May 2010.

**14. RECOMMENDATION**

14.1. That Members note the report

IAN COLEMAN  
DIRECTOR OF FINANCE