

Accounts & Audit (England) Regulations 2011

CIPFA Better Governance Forum briefing paper for internal auditors and audit committee members

Updated Accounts and Audit Regulations have now been published. The new regulations apply for accounts and reports relating to the financial year 2010-11. The regulations can be accessed on the BGF website, together with the explanatory memorandum and covering letter from the Department for Communities and Local Government.

This briefing paper highlights the key changes that will be of most interest to internal auditors, audit committee members or others working in governance roles. It is not a comprehensive summary of the regulations.

Key changes to note:

Annual Governance Statement

Part 2 section 4 has amended the wording to require the body to approve an annual governance statement rather than a statement on internal control, reflecting the current practice. This should help to clarify the statutory basis for the annual governance statement and avoid confusion.

As regards the timing of the approval of the AGS, CIPFA's draft LAAP year end bulletin states that the authority:

'must ... have drafted the AGS in order for it to accompany the signed and dated statement of accounts by the end of June. The AGS will therefore be approved under Regulation 4(3) at the same time as the statement of accounts is approved, i.e. by 30 September.'

We also recommend that authorities report the statement of accounts to Members after they have been signed by the CFO. This will allow them to review the statement of accounts together with the AGS before or during the audit of the accounts and raise any points that may need to be addressed.

In practice, we would expect authorities to take the statement of accounts to Members or Committee at the meeting nearest to the 30 June for review, or the meeting prior to that at which the accounts will be formally approved i.e. near to 30 September, whichever is more suitable.'

CLG has been consulted on the draft LAAP bulletin and this approach to the AGS has been agreed by them.

The review of the AGS and the accompanying assurances are important roles for the audit committee. Sufficient time and opportunity should be allowed for the audit committee to assess and consider the statement before it is finally approved.

Once approved the annual governance statement should 'accompany' the statement of accounts. The change in the wording emphasises that the statement is separate from the accounts for the purpose of external audit.

Internal audit

The 2011 regulations have amended part 2 section 6 to say:
'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'

This is a change to previous regulations which said the body should 'maintain an adequate and effective internal audit'.

There have also been changes to the wording in 6 (2) referring to making 'documents and records available' for audit rather than 'documents that relate to accounting and other records'. This is a helpful updating of the language.

In the consultation draft 6(3) the regulations included a change to the need to conduct an annual review of the effectiveness of the system of internal audit by changing it to an annual 'review of the effectiveness of its internal audit'. The final regulations have not made any further amendments. In its response to the consultation on the regulations CIPFA referred to its guidance relating to the previous regulations which advised that the system of internal audit should be interpreted as

"the framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation".
The current wording could lead to a narrow focus on internal audit alone rather than the adequacy of the wider assurance framework and consequently CIPFA had recommended in its consultation response that it be removed. In light of the adopted regulations, CIPFA's Audit Panel is currently considering drafting further guidance to support practitioners.

The Better Governance Forum's view is that a review of the effectiveness of the assurance framework would be a necessary stage to support the AGS and should form a normal agenda item for the Audit Committee. This would include the contribution made by internal audit but would also cover the wider assurance framework and the audit committee itself. By reviewing the effectiveness of internal audit as part of this wider review then the specific requirements of the Regulations will be met. When considering the effectiveness of internal audit, practitioners are referred to a number of documents:

- CIPFA Code of Practice checklist
- CIPFA Statement on the Role of the Head of Internal Audit
- The improvement tool in Effective Internal Audit, 'Performance against outcomes'

Statement of Accounts

Previously audit committees have reviewed the accounts prior to their approval by the end of June. The new regulations have removed the requirement for the accounts to be formally approved before the end of June, although they must still be signed by the responsible financial officer at that date. As already stated CIPFA has recommended in the draft LAAP year-end Bulletin that it is good practice for the accounts to be presented to members for review and comment prior to audit and this is an area where the audit committee can still add value. CLG have been consulted on this point and fully endorse CIPFA's recommendation.

The regulations require that the accounts should be considered and approved by members and published before 30th September of the year to which they relate. In some councils it has been the practice for the audit committee to not only review the accounts but also to approve them. In its response to the consultation CIPFA made the following comment:

'In many authorities, the practice is for the accounts to be approved by the Audit Committee (or equivalent). CIPFA has some concerns that an approval role could call into question the committee's independence, and believes that best practice would be for the Audit Committee to review the accounts, but for the approval role to be undertaken by either another committee or by the members meeting as a whole, taking into account the review undertaken by the Audit Committee. CIPFA accepts that this cannot be covered in the regulations as an Audit Committee is not a statutory requirement. However, we believe that it would be helpful for this point to be made in guidance on Regulation 8(3).'

CLG are not planning to issue any statutory guidance in relation to the Accounts and Audit Regulations, but the changes to regulations in relation to the approval of the accounts provides a useful opportunity to review the terms of reference for the audit committee.

Action Points

- 1. Ensure the drafting of the AGS is still completed prior to 30th June.**
- 2. Ensure that the audit committee review the supporting assurances and the AGS in good time before the final approval by 30th September. In practice this will be in either June or July.**
- 3. Review the Audit Committee's terms of reference in relation to the accounts to ensure that they undertake an effective role in reviewing the accounts prior to the body approving the accounts by 30th September, in accordance with the LAAP bulletin.**
- 4. Prior to the approval of the AGS ensure a review of the effectiveness of internal audit has been undertaken either separately or as part of the review of the assurance framework.**

Useful Links

Accounts and Audit Regulations 2011
<http://www.legislation.gov.uk/uksi/2011/817/contents/made>

CIPFA Audit Panel, Review of the Effectiveness of the System of Internal Audit
http://www.cipfa.org.uk/panels/audit/download/internal_audit_effectiveness_jan09.pdf

CIPFA Statement on the Role of the Head of Internal Audit
http://www.cipfa.org.uk/roleoftheHIA/download/Role_of_the_HIA.pdf

Effective Internal Audit

http://www.cipfanetworks.net/governance/tool_finder_eia/default.asp

Rough Guide to the Annual Governance Statement

http://www.cipfanetworks.net/governance/documentation/default_view.asp?library=158&category=1257&content_ref=7030



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