

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING



EFFECTIVE GOVERNANCE

November 2017

Contents

- 1 Corporate Governance
- 2 Assurance
- 3 The Effective Audit Committee



CORPORATE GOVERNANCE

Corporate Governance...

...what is it and why is it important?

What is Corporate Governance?

Ensuring you are doing the right things in the right way for the right people in a timely, inclusive, open, honest and accountable manner

- Systems;
- Processes;
- Cultures; and
- Values.

Why did it come to prominence?



Various Scandals

COMMON THEME: **ABUSE OF POWER**

Other Public / Not for Profit Sector examples



- T Dan Smith, Leader Newcastle & Poulson Builder: [Contract Awards](#)
- Dame Shirley Porter: [Westminster Homes for Votes](#)
- Jim Speechley, Lincolnshire: [Influencing road routes](#)
- Wessex Regional Health Authority: [£60m wasted on failed computer project](#)
- West Midlands Regional Health Authority: [Series of financial scandals](#)
- Political Parties: [Cash for honours](#)
- Lords Hanningfield and Taylor of Warwick: [Expenses](#)

The common theme:

Procedures and / or Values

Audit Committee role in Corporate Governance

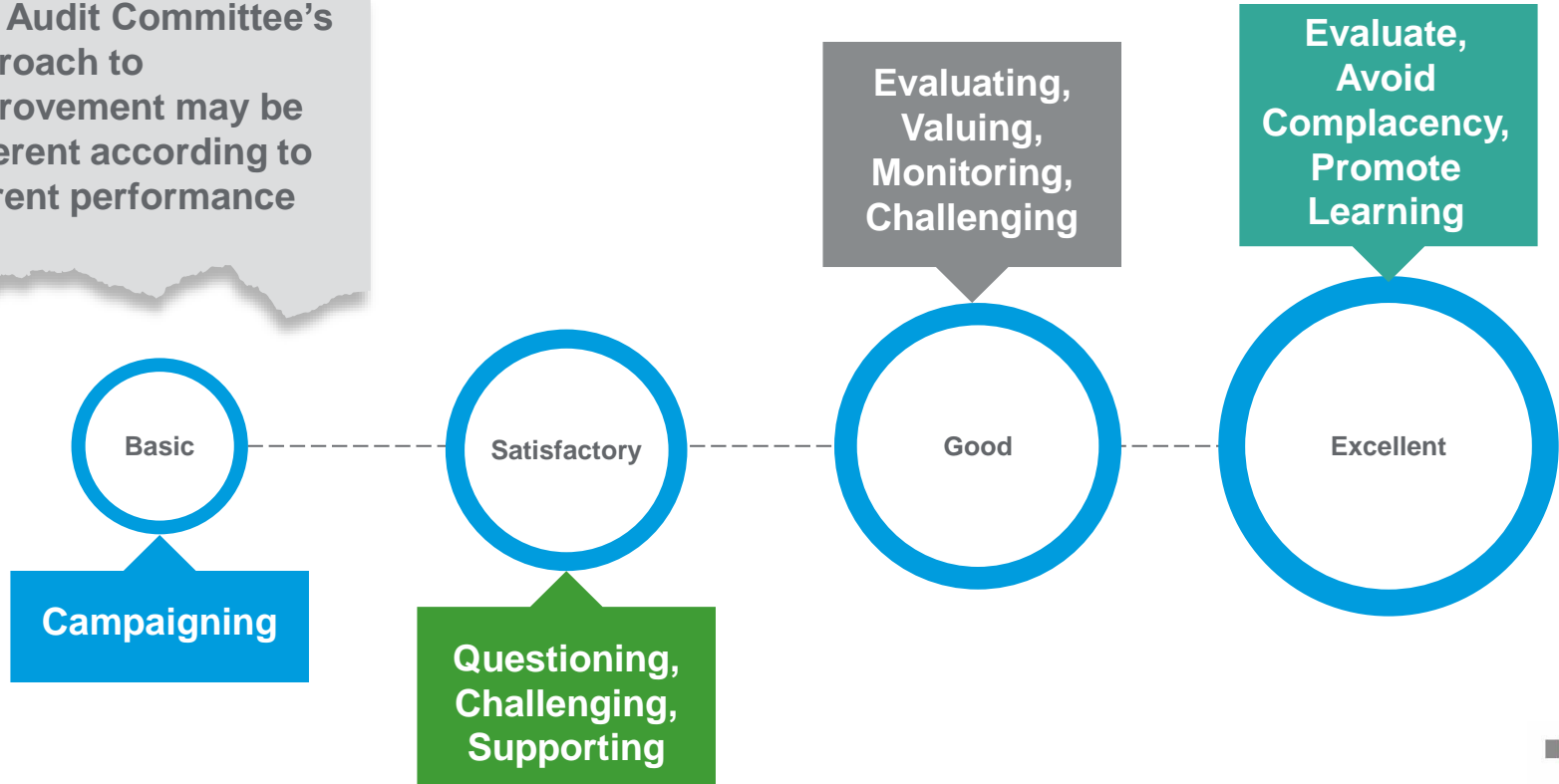
- ✓ From Authority set the tone of the organisation
- ✓ Look at the control mechanisms
- ✓ Provide independent view
- ✓ Commission independent governance reviews
- ✓ Be explicit in your expectations
- ✓ Be squeaky clean and be seen to be so

Where should the Audit Committee have influence?



Continued

The Audit Committee's approach to improvement may be different according to current performance

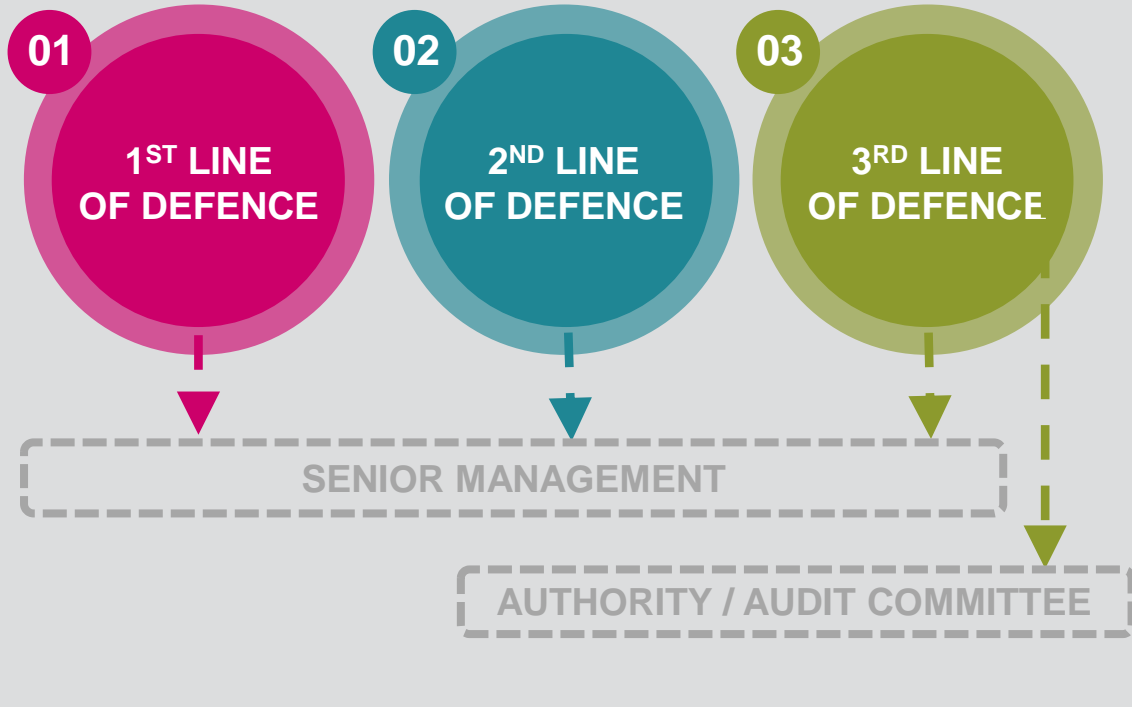




ASSURANCE

The Audit & Standards Committee Role

Assurance - 3 Lines of Defence – Manage Risk



- 01** Management Controls
Internal Control Measures
- 02** Financial Control
Security
Risk Management
Quality
Inspection
Compliance
- 03** Internal Audit
External Audit
HMICFRS

Why do we need assurance?

- ✓ To avoid nasty surprises
- ✓ So we know policies and initiatives operate as planned
- ✓ To assess whether objectives are being achieved
- ✓ To find out if we are efficient
- ✓ To help decision making – to know where priorities for improvement should be
- ✓ To enable us to account to public & stakeholders
- ✓ Help fulfill our own objectives for accountability

Evaluating assurance

The value of the assurance will depend on:

- Independence of the assurance provider
- Whether assurance is evidence based
- The depth of coverage
- The timeliness of the assurance
- The frequency of the assurance

Assurance needs to balance the value of assurance with the cost of assurance

- According to risk
- And statutory requirements
- And accountability demands

Tricky Areas for Audit Committees

- Partnerships: *Are assurance arrangements in place?*
- Complacency & dependence on negative assurance: *'We've no evidence to the contrary so we assume everything is ok'*
- Fraud?
- Unethical behaviours?
- Performance comparisons?
- New areas of responsibility
- Organisational culture e.g. *'no bad news'* *'no-go areas'*
- Over reliance on one source of assurance

Key questions to ask on assurance

- Do we have all the assurances we need to meet our responsibilities as an audit committee
- Do we have all the assurances we need to ensure the organisation meets its statutory duties?
- Do we have assurance across all key areas?
- Are we over-relying on internal and external audit for assurance?
- Are there other sources of assurance we should be hearing from?
- How rigorous is the assurance?
- Are we taking steps to improve the efficiency and cost-effectiveness of assurance?

Annual Governance Statement

Aim

To support better governance and drive more consistent, coherent and transparent reporting and brings together in one place all disclosures relating to governance, risk and control.

Annual Governance Statement

Essential features of the Governance Statement

Governance
framework

Scope of
responsibility

Purpose of the
system of
internal control

Capacity to
handle risk

Significant
internal control
issues

The risk and
control
framework

Review of
effectiveness

Annual Governance Statement - Challenges

Who has been involved?

What evidence to support?

Assurance received on process for producing the Statement

Covers all areas of business

Clarity of control structure and stewardship

Clarity on risks, vulnerabilities and resilience to challenges

Dealt with governance matters raised previously

Responds to draft comments

Including outcomes – what does it all mean?

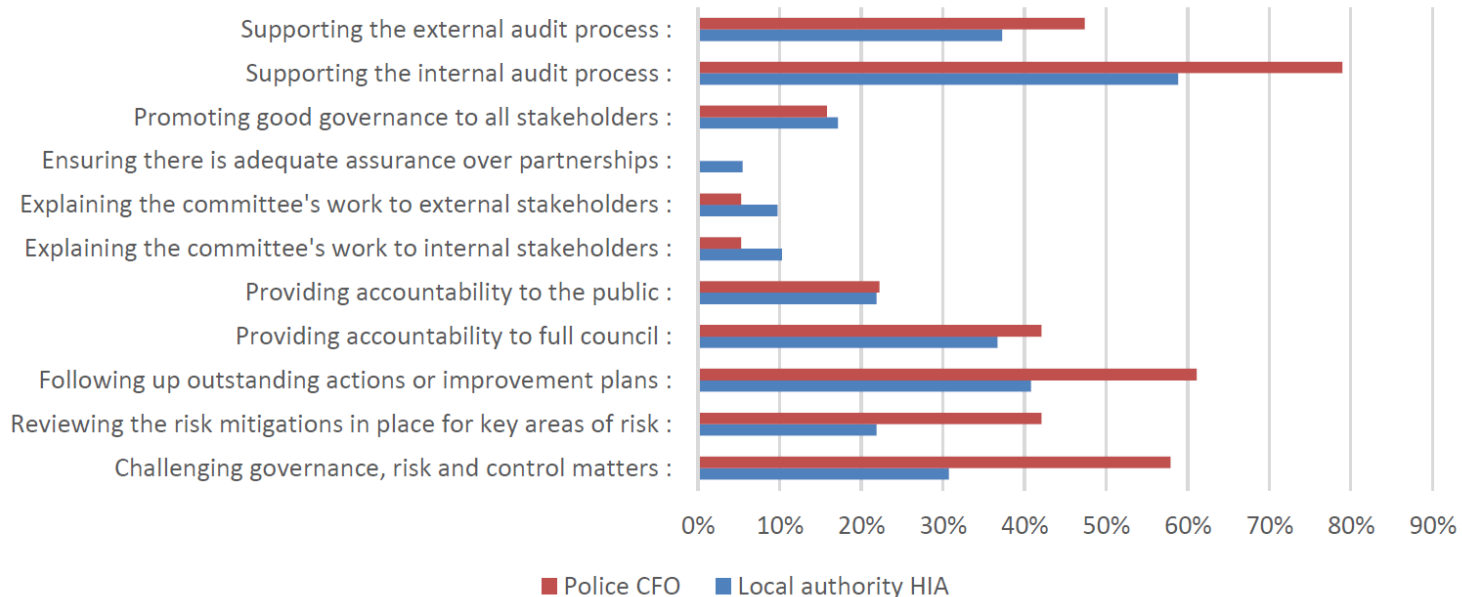
Action Plan to move forward



THE EFFECTIVE AUDIT COMMITTEE

Audit Committee Effectiveness – CIPFA (2016)

Comparison of views of effectiveness of local authority and police audit committees (percentage of respondents answering 'very effective')



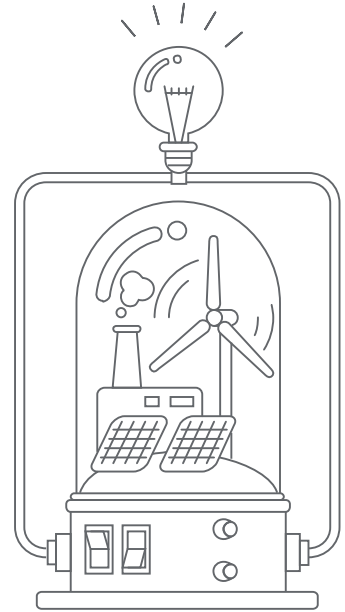
Barriers to Improvement– CIPFA (2016)

Comparison of responses to the question asking for the barriers to improvement of effectiveness of the audit committee



Ideal skills and experiences

- Independent thinkers
- Ability to challenge constructively
- Wide knowledge of organisation's operations
- Awareness of financial matters



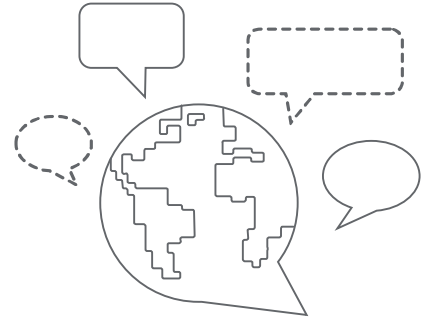
Meeting protocol



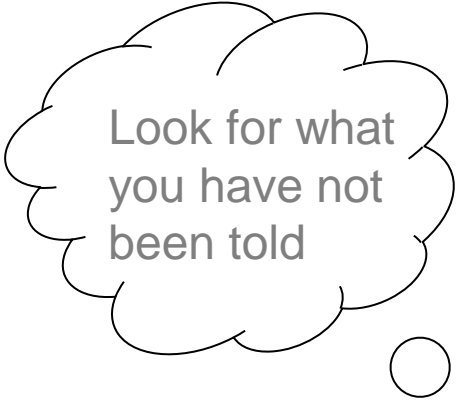
- Open and honest discussion
- Disciplined time management
- Formal
- Prioritise important or urgent
- Resist the “merely interesting”
- Apolitical

Challenge what you are told

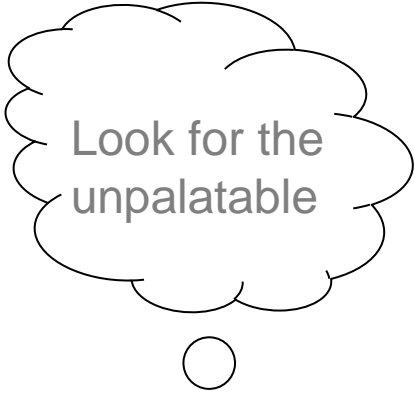
- Constructively
- Persistence pays off
- Avoid being personal
- Anecdotes v. Facts and Evidence
- Challenge v. Trust
- Open and closed questions




Think out of the box



Look for what
you have not
been told



Look for the
unpalatable



Look for
alternative
explanations

Traditional Approach

- Review what you are told
- Look for arguments to support conclusions
- Consider practicality and acceptability of conclusions

Being effective – thoughts to keep in mind

- Is there a comprehensive process for managing risk?
- Is there a comprehensive process for developing corporate governance?
- What about performance management?
- Does the system of internal control highlight things going wrong?
- Is appropriate action taken when things go wrong?
- Is internal audit adequate and effective?
- Are all audit plans appropriately focused?
- Are responses to audit recommendations satisfactory?

Being a force for action

- Delivering corporate governance
- Audit recommendation implementation
- Driving risk management forward
- Driving performance management forward
- Demand training and support
- Be independent, objective, apolitical
- Be noseey
- Support your auditors

Responsibility

All that responsibility, when....

The Audit Committee might **only meet a 4/5/6** times a year

Meetings last a **few hours** at a time

Members are **not necessarily professional auditors or risk managers**

Auditors can only take a **snap shot**

The Audit Committee **role is part time**

The Audit Committee also want to sleep at night!

Don't Panic!



- **Audit committee is not expected to be expert**
- **Must be prepared to ask questions**
- **Exercise caution and judgement**
- **Maintain objectivity**
- **Get action**
- **Hold staff to account**

QUESTIONS AND ANSWERS?



THANK YOU FOR
YOUR TIME AND
ATTENTION