



National Audit Office

October 2018



Interactive

# Round-up for Audit Committees

This interactive round-up comes out in spring and autumn, providing an overview of the NAO reports and communications most relevant to the needs of Audit Committees.





## C&AG introduction

2017-18 was a year of extraordinary change in UK public life. As I noted in our recent [Annual Report](#), the NAO has responded by focusing our work to help the public sector meet the current challenges – including through the publications highlighted in this Round-Up. I outlined some of these challenges in my recent blog-post, [Risks, resources and government-supplier relationships](#). In particular, the plans to exit the European Union are placing extraordinary demands on the public sector, both directly and through their impact on other areas of work. To assist, we have published a series of reports on the government's readiness for the Exit ([page 6](#)).

The number and scale of transformation programmes is a further crucial factor, and the constraints on resources and skills make prioritisation of them essential. Transformation programmes can improve services and reduce costs, but they can also be complex and challenging. To help, we have recently published 'Transformation guidance for audit committees' and spoken about it at an event run jointly

with the Public Chairs Forum. Given the likelihood of major projects running over budget, we have also published a guide to challenging cost estimates. (See [page 4](#)).

One of the sectors facing the most high-profile challenges is health and social care and the NHS's 70th anniversary was a well-timed opportunity for us to produce a number of publications on this sector's issues (summarised on [page 6](#)).

What role should audit committees play in supporting organisations facing such challenges? To help answer this, we're delighted that this Round-up includes an article by the Chair of our own Audit Committee, Janet Eilbeck. Janet reflects on her 30 years of audit committee experience to look at what good audit committees do, especially in challenging times ([page 3](#)). I am also very pleased that in the next few weeks we will publish a guide for audit committees on managing fraud and error ([page 5](#)).

Last, but certainly not least, I invite audit committees to discuss your issues with our teams, especially during this audit planning season. From pointing you in the direction of helpful resources, to our open offer to facilitate a workshop to assess your audit committee's performance, we are keen to do all we can to help the public sector to prioritise and improve during this challenging period.

### Sir Amyas Morse

Comptroller & Auditor General

For more about our own work and how we maintain and improve quality in our audits, see our [Transparency Report](#). We publish this report each year, and in 2017-18 issued it alongside our Annual Report. It contains detail about our audit practice, which helps Audit Committees to understand more about our own governance and commitment to audit quality.



## Audit Committee: A thirty-year perspective

The rise of audit committees coincided, more or less, with my first years as a Big Four audit partner, which is to say, the late eighties, early nineties. Since then, I have attended an awful lot of them. In the early days there was much discussion about their value. They have, of course, moved on, and most now do a pretty good job. However, there are some new challenges and there are lessons to be learnt. Some stick in my mind, of course...

It took Local Government, with its different governance structure, longer to find the right role for an audit committee. In the early days it was often too short and too infrequent, disinterested, too big, too formal and sometimes, not sufficiently expert. They had little impact in some authorities at that time. Attending as an auditor was usually a frustrating experience. However serious the message, real engagement was a struggle.

I also remember attending the audit committee of a major charity, perhaps 12-15 years ago, and challenging them about some of their fundraising methods... That particular message may have been ahead of its time.

So what do I conclude? The best audit committees take their role seriously and discharge it properly. They recognise that it may not be the most exciting

committee in the structure, but do the job the best they can anyway. They read the accounts. They really listen to the auditors. They ask questions. They follow up to make sure problems identified are resolved. They enquire into difficult governance issues. They understand risk. They have the experience to be able to pull together the messages from the different committee papers and know when the organisation is running well and when warning lights are starting to flash. Risk is more than the problems of here and now; the stronger committees look ahead to how known and unknown events could impact on their organisation and ensure, through the risk process, that planning is sufficiently broad and, where necessary, deep.

What don't good AC members do? They don't stray so far into challenge mode that they become a nuisance. They don't arrive in government for the first time assuming that the experience and norms they bring with them can be implemented without modification in a government setting; rather, they listen and adapt. They don't try to insert interesting (to them) investigations, 'deep dives', or similar non-core matters into the agenda to the detriment of the core business. That latter qualification is important – we get a lot of value out of our occasional deep dives at the NAO, but we don't do them in the NAO's busy May-June period!

But what of the warning lights? An excellent film about an audit committee in a corporate circulated some years ago. The underlying message of that film was, as it happens, also one of the preoccupations of the audit regulator: scepticism. The fictional audit committee of the film was quick to accept management assurances, reluctant to challenge. When the warning signs started to accumulate, they were slow to act and didn't do enough. Their preliminary investigation was superficial. They were going through the motions.

It is in challenging times that the audit committee becomes the most interesting committee of all. And also when you can really tell the best from the rest.

### Janet Eilbeck

Chair of the NAO's Audit Committee

Audit Committees can assess their performance against best practice using the NAO's [Audit Committee self-assessment checklist](#)



# Audit Committee: Challenge and oversight

Government organisations – and therefore their audit committees – face huge challenges as they improve and transform public services, especially in the face of the EU Exit, growing consumer needs and expectations, and other current pressures.

To help audit committees fulfil their challenge and oversight role in these situations, we have published two guides that suggest critical questions you can ask through all stages of a project or programme.



With conflicting demands on public sector capacity, Sir Amyas Morse has spoken and blogged on [Risks, resources and government-supplier relationships](#), setting out why the relationship between public, private and third sectors is so important for the delivery of public services.

## Transformation programmes



Highly complicated and risky, transformation programmes can present great challenges. Our guide [Transformation guidance for audit committees](#) sets out questions and the evidence and indicators to look out for, both at each stage of the process, and regarding the role and management of data.

After a positive reaction to our recent 'Transformation guidance' and [Cyber security and information risk guidance](#) published last year, we have been developing a guide to cloud assurance in response to the number of departments and bodies moving their data to the cloud. Publishing in the autumn, this guide for audit committees will set out the questions to consider when choosing cloud software and storage.

Our blog-post, [Successful transformation: voices of experience](#), summarises key points made at a joint Public Chairs Forum–NAO event in the presentations given by Chair, Christopher Rodrigues; CEO, Oliver Morley; and Chief Information Officer, Charles Ewen.

Our [Transformation web-page](#) includes reports illustrating the challenges of transformation programmes, such as [Early progress in transforming courts and tribunals](#), which raises a number of risks common to transformation programmes, including dependence on stakeholders to achieve planned change, the need to anticipate and manage unintended consequences, and over-optimism in benefits.

## Costing major projects



Drawing on our work on major projects, our new [Survival guide to challenging costs in major projects](#) sets out factors leading to cost growth that can lead to project failure and poor value for money. It offers senior leaders tips on the early warning signs and suggests questions to ask at different stages of the policy and project lifecycle.



## Financial reports and fraud and error

We have recently published a guide to good practice in annual reports and also a number of C&AG [Reports on Financial Statements](#), including for the Whole of Government Accounts.

As summarised here, we will shortly publish audit committee guidance on managing fraud and error risk.

### Fraud and Error risk guidance for Audit Committees

The risk of fraud and error affects all parts of the public sector, from procurement spending to cyber fraud in online services. Audit and Risk Committees (ARACs) should understand and challenge the management of fraud and error as part of their scrutiny of an organisation's risk management. Our statutory audits also include a specific consideration as to 'whether the financial statements could be materially misstated due to fraud'.



Our guide, to be available on our [Fraud, Error and debt management web-page](#) by autumn, will provide context and questions that ARACs can ask to understand an organisation's management of its fraud and error risks. The guide draws on our experience of fraud and error in the public sector and our Fraud and Error Framework, which provides a pathway to systematically addressing fraud and error. The framework recommends strategies based on an understanding of the causes of fraud and error, leading to well-designed, effectively implemented controls, where the outcomes of these interventions are measured and evaluated.

### Award-winning annual reports



[Good Practice from the 'Excellence in Reporting in the Public Sector Award' – Building Public Trust Awards](#) highlights and illustrates "what good looks like" in annual reports. It covers reports'

presentation of: strategy, risk, operations, governance, success measures, financial performance, people factors, external factors and ease of understanding.

This guide is also summarised in our blog-post: [Being honest: award-winning annual reports.](#)



## Other NAO resources

### Preparations for EU Exit



In the last two years, the NAO has published around 15 reports on how government is preparing for EU Exit. These can be found on our [Exiting the EU](#) web-page.

Our recent reports include:

[Exiting the EU: Consumer protection, competition and state aid](#) – looking at the UK’s legal framework and capacity and capability in consumer protection, competition and state aid.

[The Customs Declaration Service \(CDS\): a progress update](#) – looking at the deliverability of the CDS programme and the risks and issues HM Revenue & Customs needs to manage to fully implement CDS by January 2019.

[Exiting the EU: The financial settlement](#) – assessing HM Treasury’s estimate of the cost of the settlement.

### NHS 70

The NHS turned 70 on 5 July 2018. As a ‘critical friend’ of the NHS since its creation, we have published a number of reports and blog-posts, and Sir Amyas Morse, Comptroller and Auditor General, was [interviewed by The Guardian](#).

The long-term financial sustainability of the NHS is complicated and remains a challenge, particularly for services to meet the needs of a rapidly changing demographic. The ongoing government strategy of integrating health and social care services and support continues to be crucial to avoid “cost shunting” from social care to the NHS, as Sir Amyas says in his article. Yet funding for transformation and integration with social care has been reallocated to reduce financial deficits in the system.

The challenges facing the health and social care system are outlined in the blog-post by Abdool Kara, Executive Leader: [Getting old ain’t easy: NHS 70](#) and the NAO’s support for the NHS is summarised in the post by Robert White, NAO Director: [A critical friend of the NHS](#).

Given the crucial importance of social care, we have published an overview and a ‘think-piece’ outlining our most recent work on adult social care:

- [Adult social care at a glance](#)
- [The health and social care interface](#)
- These are summarised in our blog-post, [Adult social care at a glance](#).

Among all our [social care blog-posts](#) is [The social care challenge](#), focusing on the workforce challenge detailed in our February report.



## Further information

### Find your way around our website

The following links may be particularly useful for audit committees.

[Support and guidance](#) provides easy access to resources most useful for specific types of users and purposes, including:

- [Support for Audit Committees](#)
- [Support for Boards](#)
- [Self-Assessment Resources](#) – frameworks and guides to aid organisations’ self-assessment and decision making.
- Other Technical Guidance, including [The Financial Reporting Manual \(FReM\)](#).

[Publications on key issues](#) links to the publications most useful for understanding good practice and lessons learnt about key issues facing the public sector.

### NAO Blog

Use the ‘[tags](#)’ to search for posts by category, such as [Risk management](#).

### NAO preference centre

We have a new [preference centre](#) that gives you more options for tailoring the email alerts you receive when new content is added to our website – including our e:newsletter, publications specifically relevant for audit committees and Boards, and reports by sector and/or topic. You can use the preference centre to sign up for other email alerts, to change your preferences or opt-out at any time.

### NAO email addresses have changed

The NAO email domain has changed to @nao.org.uk and NAO staff will cease to receive emails from the former @nao.gsi.gov.uk domain in the near future. Can you therefore please take this time to update your records using the following format: [firstname.lastname@nao.org.uk](#).

## Ways to be kept informed



NAO preference centre

Subscribe to notifications of our new website content on the topics of interest to you.

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Ask your NAO team to provide you with an “NAO Update” at Audit Committee meetings.

If you have any questions about this Round-up, please contact NAO at: [nao.communications@nao.org.uk](mailto:nao.communications@nao.org.uk).

