



National Audit Office

## Local audit in England

### Code of Audit Practice

#### Issues paper: Consultation response form

Please respond by **31 May 2019**

#### How to respond

1. Please use this consultation response form to respond to the list of questions below.
2. When answering the consultation questions, it would be very helpful if you could also provide additional explanation and detail where appropriate, to understand the basis for your comments.
3. Please do not feel that you need to respond to all the consultation questions set out in this document; we welcome brief or partial responses addressing only those issues where you wish to put forward a view. If there are further observations you would like to make in addition to the questions included in this consultation, however, please feel free to include these in your response.
4. Please email your response to [lacg@nao.org.uk](mailto:lacg@nao.org.uk)
5. You can also post responses to us at Local Audit Code and Guidance Team, National Audit Office, Green 2, 157–197 Buckingham Palace Road, London, SW1W 9SP.  
Tel: 020 7798 7842.
6. If you need paper copies of this consultation document or the Code please let us know using the email or correspondence address above, or by calling 020 7798 7842, and provide us with your contact details. We will be happy to post copies to you.
7. **We may draw on your responses when explaining how we have acted on the consultation, or if we need to follow up matters raised with some or all other respondents. Therefore your comments will be regarded as public unless you let us know that they should not be. If so, please let us know when you submit your response whether you consider all or part of your submission to be confidential.**

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## **Section One: Status of the Code, application and general principles**

**Question 1** – Do you think a principles-based approach is appropriate for the Code of Audit Practice or should the approach be more prescriptive?

- Please add any comments to help to explain the basis of your answer

*We believe the code should continue to be principles based. Any proposed changes will be covered in individual responses.*

**Question 2** – Are there any principles you think should be added or removed?

- Please add any comments to help to explain the basis of your answer.

*We would support the consideration of adding a principle around pursuing Public Challenges on a cost/benefit basis. However it is important that the interests of the public are not set aside lightly. In addition the concept of pragmatism should be built into the principles which will allow a Local Authority's specific circumstances to be taken into account rather than a simple blanket approach. However this should not be at the expense of professionalism, integrity or transparency.*

**Question 3** – Do you think it would be beneficial to give more emphasis to some principles over others?

- If so, which principles should receive more emphasis?

*As the financial challenges facing Local Government continue to tighten, the need for Auditors to be constructive in their approach and pragmatic becomes increasingly important. Whilst this will provide a greater confidence when entering the audit period it should not be at the cost of public accountability and transparency.*

*We would therefore support the principles of a constructive approach, pragmatism and proportionality being highlighted alongside Public Accountability and integrity.*

**Question 4** – Do you think a single Code should be retained, or would sector-specific Codes be better?

- If separate, what differences between the Codes would you like to see?

*We support a single code being maintained.*

**Question 5** – How could the Code better support auditors' work on audited bodies' partnerships and joint arrangements?

*The code could better support the Auditors work on partnerships by requiring a view on the Audited Bodies level of engagement with significant partnerships and joint ventures. The Code should provide guidance on what would constitute a significant partnership or joint venture. In some arrangements locally called 'a partnership' are often better interpreted as the provision of service from one authority to another, it would therefore be helpful for the Code to include how Auditors would define such partnerships and joint ventures not otherwise formally structured.*

*We would not support an Auditor doing work on the whole partnership on behalf of each Audited body where it is not formally constituted. The emphasis should be on the role of the Audited body within the partnership.*

## Section Two: Audit of the financial statements

**Question 6** - Do you agree the Code should continue to align its requirements with generally accepted auditing standards?

- If not, please explain.

*We agree the Code should continue to align with generally accepted accounting standards.*

**Question 7** – Are there areas of the audit of financial statements where it is currently difficult or inappropriate to apply generally accepted auditing standards?

- If so, which standards, and why?

*Whilst the complexity of the Financial Statements and the development of an increasing commercial approach should be covered by the 'streamlining' of local authority accounts, there is a role for the Auditors in being clear for the public and other stakeholders how the statutory overrides are applied and the impact on the standard accounting practice.*

## Section Three: The auditor's work on economy, efficiency and effectiveness of corporate arrangements (value-for-money arrangements)

**Question 8** – What are the key issues that you think the Code and National Audit Office guidance for this area of work will need to be able to address in the coming years?

- Please add comments to help to explain the basis of your answer.

*We support the current approach to the VFM assessment. The delivery of value for money will vary between Authorities and will be specific to local context. This could lead to conflict between Auditors and the Audited Body of what constitutes value for money in any given circumstance. Whilst having the right procedures is auditable, whether every financial decision has specifically provided value for money will be a matter of judgement for the Audited Body taking into account local circumstances and context.*

**Question 9** – Are you content that the current terminology ‘VFM arrangements conclusion’ adequately describes the nature of the work undertaken and the conclusion?

- If no, what would be a more informative description?

*We believe the current terminology is appropriate. Any alternative will lead to s151 officers advising what the new terminology means and most likely using the VFM arrangements as a short hand.*

**Question 10** – Do you think the current, risk-based, approach to arrangements work focuses the auditor’s attention in the right areas?

- If no, how should the focus of auditors’ work change?

*We believe the current risk based approach does target the work of the Auditors in the right areas.*

*The shorter timescale for closedown has created an increasing use of estimates in a Local Authorities financial statements. This might not always appear as a significant risk but should be a focus for the Auditors to assist an Audited Body in ensuring its approach to the use of estimates is appropriate and proportionate.*

**Question 11** – Do you think the Code should allow auditors to look in more detail at work in areas that may not meet the current definition of a ‘significant’ risk, but nevertheless represent a concern to local auditors and local public bodies?

- If so, on what basis should auditors determine how and where to focus their work, consistent with their responsibilities as auditors?

The risk based approach allows the Auditors to look at all areas of the business that are assessed as significant. To provide for Auditors to look beyond areas defined as a ‘significant risk’ would require an element of agreement between the Auditors and the Audited Body otherwise the Audited Body could be paying for work it does not believe is valid.

If this approach was to be extended to Auditors it would need to be on an agreed basis with clear costs identified for any additional work.

Any additional more detailed work should be agreed with the client Authority.

## Section Four: Reporting the results of the auditor's work

**Question 12** – Do you think the information that is currently reported publicly by auditors helps local taxpayers understand the key issues and hold local bodies to account?

- If no, what would improve this?

*We do think that the current reporting provides appropriate level of information for residents and stakeholders. It should be the role of the s151 to identify the key issues of concern within the narrative report. If an Auditor believes a risk or issue is not sufficiently covered then this could be amended as a part of the audit or highlighted as an except for or adverse matter dependent on the seriousness.*

*Some of the suggestions in para 36 of the consultation may be helpful however we should not place the Auditors in the role as financial adviser to the public by widening their responsibilities beyond the realms of a financial and VFM Audit. For example asking Auditors to provide a judgement on the key risks that don't impact on their audit opinion would change the role of the Auditor. Bullet points 1, 2 and 6 could add further value to the reporting process however bullet 7 'what actions the audited body should take...' would change the role of the Auditor to adviser, however, if actions are required then these should be produced by the s151 and agreed at full Council [see answer to 13 below].*

**Question 13** – How could local reporting add more value to the audit for local public bodies and taxpayers?

*The current approach to reporting means that only serious issues are raised by the auditors and this is appropriate.*

*However, where an adverse or a negative VFM assessment is reported then requiring a written response from the s151 [agreed by full Council] and published alongside the Audit opinion would ensure there was appropriate accountability for tackling the issue raised.*

**Question 14** – In the section on the auditor’s work on economy, efficiency and effectiveness, we explained that the auditor reports their overall conclusion against the criterion of whether they are satisfied that **“in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”**. Do you think a single, overall criterion for reporting the adequacy of arrangements enables auditors to effectively communicate relevant issues, or would a number of more specific criteria be more effective?

- If so, what sort of criteria would be helpful?

*We believe the single, overall criterion for reporting are sufficient.*

*To move away from the single statement would be to water-down the confidence that such a position can provide. It would be difficult to develop more specific criteria without asking Auditors to start and look at individual decisions across different processes which would then require a judgement on local choices without necessarily having the full contextual understanding of the situation.*

**Question 15** – Do you think the options of ‘adverse’ and ‘except for’ conclusions to report weaknesses enables auditors to effectively communicate relevant issues?

- If not, please explain your answer and how auditor reporting could be improved.

*We believe these options enables Auditors to effectively communicate relevant issues.*

**Question 16** - How could the results of audit work on economy, efficiency and effectiveness be reported more effectively and clearly?

*We believe this could be improved by requiring adverse outcomes to be addressed directly by the Audited Body in a statement alongside the adverse conclusion.*

*Reviewing the Northampton adverse opinion, it could have been supported by some examples of the concerns raised.*

## Section Five: The auditor's additional powers and duties

**Question 17** – Do you think the Code should include more with respect to when auditors might be expected to use their additional powers?

- If so, which areas would this be most useful?

*We believe that additional clarity on when auditors might be expected to use their additional powers would be useful. Your discussion paper suggests an emphasis on proportionality in consideration of elector's objections and we would support that approach.*

*Clarity on when an auditor would use an advisory notice would be useful.*

## Section Six: Smaller authority assurance engagements

**Question 18** – Do you think the current approach set out in the Code to undertake work at smaller authorities under specified procedures will enable auditors to continue to respond to the challenges at smaller authorities?

- If no, how should the approach be adapted?

*We support the current approach to work in smaller authorities.*

**Question 19** - Do you think the current approach to considering economy, efficiency and effectiveness at smaller authorities is appropriate and proportionate to the size of the bodies being reviewed?

- If no, what would you like to change?

*We agree with the current approach.*

## Section Seven: Potential implications of changes to the Code

**Question 20** – Do you think local auditors have the appropriate capacity and capability to meet their responsibilities and to respond to the issues set out in this consultation?

- If no, how should auditors' capacity and capability be strengthened?

*It is clear that this has been problematic for one Audit Firm this year, however it would appear that the other firms have sufficient capacity. As this is the first year of a new contract then opinions on this issue will develop over the next few months.*

*Historically there have been concerns that Authorities are visited by inexperienced trainees and often need to be trained on the job by the client.*

*We believe that should a change in the code require an increase in resources then PSAA should be asked to develop a process to allow a managed contract variation to ensure that there is consistency across Audit Firms.*

## General Comments

**Question 21** – Are there any other ways in which you think that the Code could be further strengthened or improved?