



National Audit Office

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# Code of Audit Practice

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# Preface

## The Code of Audit Practice

The Local Audit and Accountability Act 2014 (the Act) requires the Comptroller and Auditor General (C&AG) to prepare one or more codes of audit practice prescribing the way local auditors are to carry out their functions. This responsibility is important both nationally and locally in supporting auditors and underpinning a consistent, high-quality approach to the audit of local public bodies.

Any code prepared under the Act must “*embody what the C&AG considers to be the best professional practice with respect to the standards, procedures and techniques to be adopted by local auditors*”. Auditors of bodies covered by the Act are required to comply with a code prepared by the C&AG and approved by Parliament.

## Our approach

The C&AG has taken the opportunity to prepare a single code covering the audit of different types of local public body. This reflects the fact that the core statutory responsibilities placed on the auditors of the different types of local public body covered by the Code are essentially the same. In addition, a single code has practical benefits and helps promote consistency of approach. Where differences exist in what the auditors of different types of local public body are required to do, we have highlighted these within the Code or will address them in our detailed guidance to auditors.

We have taken a principles-based, rather than a rules-based, approach to developing the Code. This is in line with predecessor codes and has allowed us to prepare a concise, high-level code applicable to the audit of all local public bodies within the local audit model established by the Act, providing a clear framework for the auditor to meet their statutory duties. A principles-based approach also helps to ensure that the Code does not quickly become out of date as the regulatory environment evolves.

A principles-based code allows the auditor to adopt a flexible approach that is responsive to sector developments and to the specific circumstances faced by the audited body. As is the case at present, it follows that the amount of work required to perform a good quality audit may increase or decrease in response to those circumstances. This is something on which the audited body is likely to have a view and we would expect auditors to be discussing their audit approach with the audited body. Ultimately, though, this must be a matter for the auditor’s independent, professional judgement.

The Code provides the basis for a professional audit consistent with the auditor's statutory responsibilities. As stated previously, it relies upon the auditor using their judgement to design an audit approach that meets their responsibilities. What the Code cannot do is provide a guarantee as to the quality of the auditor's judgements or that significant failure or wrongdoing will not take place at an audited body.

Properly applied, though, the Code supports an audit approach that will allow the auditor to consider and report on issues of public interest that arise during the course of their work. This, in turn, is predicated on the audited body meeting its statutory responsibilities to provide the auditor with the facilities and information the auditor reasonably requires for the purposes of their functions.

## **Application of the Code**

The Code relates to the audit of relevant bodies as set out in Schedule 2 and Schedule 13(3)(1) to the Act. Additionally, Schedule 6 to the Act extends this duty to cover the audit of NHS foundation trusts. Appendix One provides a list of the different types of body to which the Code applied at the time it was published following Parliament's approval – this is provided for information and does not form part of the Code.

The C&AG must keep the Code under review and obtain Parliament's approval for any amendments. The C&AG must use reasonable endeavours to ensure that the Code is replaced with a new code before the end of 5 years from the date this Code was published.

## **Guidance to auditors**

The Code will be supplemented by detailed guidance to auditors provided by the National Audit Office (NAO) on the C&AG's behalf, to which auditors are required, under the Act, to have regard. Key components of this guidance package, which are normally published on the NAO's website, will include:

- planning local NHS audits;
- planning local government audits;
- the auditor's work on value-for-money arrangements;
- smaller authority assurance engagements;
- the auditor's additional duties and powers;
- auditor reporting; and
- dealing with technical queries.

The NAO will provide additional ad hoc guidance to auditors as required, for example on emerging regime-wide issues. This will be informed by the NAO's regular engagement with auditors and other stakeholders.

## **Contents of the Code**

The Code comprises the following sections:

- Chapter One – Status of the Code, application and general principles
- Chapter Two – Audit of the financial statements
- Chapter Three – The auditor's work on value-for-money arrangements
- Chapter Four – Reporting the results of the auditor's work
- Chapter Five – The auditor's additional powers and duties
- Chapter Six – Smaller authority assurance engagements
- Schedule 1 – The auditor's statutory responsibilities
- Schedule 2 – Audit report: Inclusion of additional matters by exception

Additional material, provided for information only:

- Preface
- Appendix One – Types of local public body covered by the Code
- Glossary

## **The Comptroller and Auditor General and the National Audit Office**

The C&AG is an Officer of the House of Commons and is the head of the NAO. The NAO scrutinises public spending on behalf of Parliament.

The NAO's audit of central government has two main aims. By reporting the results of its audits to Parliament, the NAO holds government departments and bodies to account for the way they use public money, thereby safeguarding the interests of taxpayers. In addition, the NAO's work aims to help public service managers improve performance and service delivery.

The specific powers and duties of the C&AG and of the NAO are laid down in legislation, in particular the National Audit Act 1983, the Government Resources and Accounts Act 2000 and the Budget Responsibility and National Audit Act 2011.



# Chapter One

## Status of the Code, application and general principles

**1.1** This chapter covers the status of the Code, provides details on its application and sets out principles which should underpin the conduct and work of the auditor in discharging their statutory duties.

### Status of the Code

**1.2** The Comptroller and Auditor General is required to prepare the Code of Audit Practice (the Code) under paragraph 1 of Schedule 6 to the Local Audit and Accountability Act 2014 (the Act) and to lay it before Parliament under paragraph 2 of that schedule. The Code is required to be approved by both Houses of Parliament. The Code, the first to be produced by the Comptroller and Auditor General under the Act, comes into effect on 1 April 2015.

### Application of the Code

**1.3** The Code applies to the audit of relevant bodies as set out in Schedule 2 and Schedule 13(3)(1) to the Act. Additionally, Schedule 6 to the Act extends the duty to prepare the Code to cover the audit of NHS foundation trusts. Auditors of these bodies are required to comply with the Code.

**1.4** The Code applies to the audit of local public bodies' accounts for the financial year 2015-16 onwards and until the Code is replaced. Accordingly, this Code supersedes the following:

- *Code of Audit Practice 2010, for local government bodies*, which was published by the Audit Commission in March 2010 and which remains in force for audits of 2014-15 accounts under paragraph 8 of Schedule 6 to the Act.
- *Code of Audit Practice 2010, for local NHS bodies*, which was published by the Audit Commission in March 2010 and which remains in force for audits of 2014-15 accounts under paragraph 8 of Schedule 6 to the Act.
- *Audit Code for NHS Foundation Trusts*, which was published by Monitor in December 2014 and which remains in force for audits of 2014-15 accounts.

**1.5** The auditor should use their professional judgement to apply the principles and requirements set out in the Code to the particular circumstances that exist at different audited bodies.

## **Principles**

### Wider scope

**1.6** The audit of a public sector organisation is wider in scope than that of a private sector body. Special accountabilities attach to the use of public money and the conduct of public business. It is not part of the auditor's responsibilities to question the merits of policy, but the auditor does have wider duties (depending upon the relevant legislation) to scrutinise and report not only upon the truth and fairness of the financial statements but on aspects of public stewardship and the use to which resources have been put. The auditor carries out this work on behalf of the public and in the public interest.

**1.7** The auditor does not act as a substitute for the audited body's own responsibility for putting in place proper arrangements in support of the proper conduct of public business, and for ensuring that public money is safeguarded, properly accounted for and used with due regard to value for money.

### Integrity, objectivity and independence

**1.8** The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so.

### Transparency and public reporting

**1.9** The auditor has a range of means at their disposal, set out in the relevant legislation, by which their findings may be reported publicly. The auditor should report on a timely basis without fear or favour, using their professional judgement on the most appropriate and effective means of reporting.

## Professionalism and proportionality

**1.10** The auditor should carry out their work in compliance with the requirements of the Code which itself requires compliance, where applicable, with relevant professional standards issued by the Financial Reporting Council and relevant quality control standards. The auditor's work should be risk-based and proportionate. It should be designed to meet the auditor's statutory responsibilities, applying the auditor's professional judgement to tailor their work to the circumstances in place at the audited body and the audit risks to which they give rise. The auditor should conduct their work economically, efficiently and effectively, and in as timely a way as possible.

**1.11** In carrying out their work, the auditor should exercise professional scepticism. They should obtain and document such information and explanations as they consider necessary to provide sufficient, appropriate evidence in support of their judgements. The auditor should meet the requirements of legislation, the Code and, where applicable, professional standards while also having regard to guidance issued by the NAO, on behalf of the Comptroller and Auditor General, under paragraph 9 of Schedule 6 to the Act.

**1.12** There may be circumstances in which it appears to the Comptroller and Auditor General that aspects of the Code need to be applied in a certain way in order to meet the specific circumstances of certain bodies, for example because of the nature of their business or the relatively small amounts of public money that they control. In such circumstances, the NAO will issue guidance on behalf of the Comptroller and Auditor General setting out how auditors should meet their responsibilities under the Code.

## Coordination and integration

**1.13** Local public bodies increasingly operate, commission and deliver services in a range of partnerships and other forms of joint working or contracts with other public, private or third sector bodies. In meeting their statutory duties, therefore, the auditor should consider how best to obtain assurance over such arrangements, working effectively with other auditors where appropriate.

**1.14** The auditor should, likewise, be mindful of the activities of inspectorates and other bodies and take account of them where relevant to prevent duplication and ensure that the demands on audited bodies are managed effectively. In so doing, the auditor should be informed by the reported results of inspectorates and other bodies in relation to corporate or service performance. The auditor is not required to carry out procedures to assess the quality of, or re-perform, the work of inspectorates and other bodies, except where it would be unreasonable not to do so, for example, to provide assurance in accordance with auditing standards issued by the Financial Reporting Council in support of the audit opinion on the financial statements.

**1.15** The auditor should adopt an integrated approach, where the knowledge gathered and work carried out in support of each of the auditor's statutory and reporting obligations informs the auditor's judgements and conclusions as a whole.

**1.16** From time to time the NAO may request information from the local auditor to assist the NAO in the performance of its functions.<sup>1</sup>

### Constructive approach

**1.17** The auditor should adopt a constructive and positive approach to their work with the audited body. The auditor should share and discuss their audit plan at an early stage with the audited body. The auditor should build effective coordination arrangements with internal audit, using the work of internal audit where, in the auditor's judgement and in line with professional standards, this is appropriate. The auditor should consider carefully the practical and resource implications for the audited body when framing recommendations arising from their work.

### Data security and confidentiality

**1.18** The auditor and their staff should familiarise themselves and comply with statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information, particularly personal information received or obtained during the course of their audit work.

<sup>1</sup> Schedule 11, paragraph 2(1)(b) and Schedule 11, paragraph 2(1)(d)(i), Local Audit and Accountability Act 2014.

# Chapter Two

## Audit of the financial statements

**2.1** This chapter addresses the auditor's statutory duties in respect of the audit of the financial statements. *Schedule 1 The auditor's statutory responsibilities* summarises the statutory duties of auditors of the different types of principal body covered by the Code.

**2.2** The auditor of a body that meets the qualifying conditions of a smaller authority should apply modified procedures as set out in Chapter Six of the Code, unless the body chooses to be treated as a full audit authority in accordance with regulations made under section 5 of the Act.

### **Responsibilities of the audited body**

**2.3** The specific responsibilities of different types of audited body regarding the production and reporting of financial statements and other information vary depending on relevant legislation, regulations and any other requirements that may be placed upon them. However, all audited bodies are expected to have effective corporate governance arrangements to deliver their objectives. To this end, the publication of the financial statements is an essential means by which the audited body accounts for its stewardship and use of the public money at its disposal.

**2.4** The precise form and content of the audited body's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place for that particular type of audited body and any additional guidance issued in support of the accounting and reporting framework.

**2.5** The audited body may also be required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury's Whole of Government Accounts or the Department of Health's Consolidated Group Accounts.

## **Responsibilities of the auditor**

**2.6** To meet their duties in respect of the audit of the financial statements, the auditor should comply with auditing standards currently in force, as may be amended from time to time, having regard to any other relevant guidance and advice issued by the Financial Reporting Council, and the NAO on behalf of the Comptroller and Auditor General.

**2.7** The auditor should undertake work to support the provision of their audit report to the audited body. In respect of their audit of the financial statements, the auditor's report should include the following components:

### Opinion on the audited body's financial statements

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

### Opinion on other matters

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

### Opinion on regularity

- where required<sup>2</sup> – in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them.

**2.8** Other information published together with the audited financial statements covers material that the audited body chooses or is required to provide alongside its financial statements. For example, the governance statement, a strategic report, a directors' report or an annual report or equivalent. In reading the information given with the financial statements, the auditor should take into account their knowledge of the audited body, including that gained through work in relation to the body's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources.

<sup>2</sup> Auditors of Clinical Commissioning Groups are required to provide an opinion on regularity as part of their audit of the financial statements.

**2.9** The auditor will report to the audited body by exception in respect of the governance statement, and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

**2.10** The auditor's report should address any additional reporting requirements set out in applicable auditing standards or as required by the relevant government department or regulatory body.

**2.11** Where the audited body is required to produce schedules or returns to facilitate the preparation of consolidated accounts, the auditor should, having regard to any relevant guidance or instructions prepared by the NAO on behalf of the Comptroller and Auditor General, examine and report on the consistency of the schedules or returns with the body's audited financial statements for the relevant reporting period.

**2.12** The auditors of bodies that administer pension funds are also required to give a separate opinion on the part of the administering authority's financial statements that relates to the accounts of the pension fund. In doing so, the auditor should have regard to relevant guidance issued by the NAO on behalf of the Comptroller and Auditor General.

# Chapter Three

## The auditor's work on value-for-money arrangements

**3.1** This chapter addresses the auditor's statutory duties in respect of the audited body's arrangements to secure value for money through the economic, efficient and effective use of its resources. *Schedule 1 The auditor's statutory responsibilities* summarises the statutory duties of auditors of the different types of principal body addressed by this Code. The auditor of a body that meets the qualifying conditions of a smaller authority should apply modified procedures as set out in Chapter Six of this Code, unless the body chooses to be treated as a full audit authority in accordance with regulations made under section 5 of the Act.

### **Responsibilities of the audited body**

**3.2** Local public bodies are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

**3.3** As part of the material published with its financial statements, the audited body is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement.

**3.4** In preparing its governance statement, the audited body will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. While this introduces variation in the detail of what should go into the governance statements for different types of audited body, for most local bodies there is a requirement to provide commentary on their arrangements for securing value for money from their use of resources.



## Responsibilities of the auditor

**3.5** Auditors of the different types of local public body covered by the Code have a consistent statutory responsibility in respect of the audited body's use of resources – to satisfy themselves that the audited body:

...has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.<sup>3</sup>

**3.6** In practice, this means that the auditor should, having regard to relevant guidance issued by the NAO on behalf of the Comptroller and Auditor General, undertake sufficient work to be able to satisfy themselves as to whether, in the auditor's view, the audited body has put arrangements in place that support the achievement of value for money. In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period. However, should evidence of poor value for money come to the auditor's attention during the course of the audit, the auditor should consider the implications of this for their work.

**3.7** The auditor's work should be underpinned by consideration of what arrangements the audited body is expected to have in place. This should be based on the relevant governance code or framework for the type of local public body being audited, together with any other relevant guidance or requirements.

**3.8** The auditor should take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements. An understanding of the sector includes the relevant regulatory framework, which may influence the auditor's assessment of risk.

**3.9** In conducting the above work, the auditor's conclusion should be informed by:

- the audited body's governance statement and any additional reporting by the body on the arrangements it has in place to manage risks to the achievement of value for money through the economic, efficient and effective use of its resources;
- evidence that the audited body's arrangements were in place during the reporting period;
- evidence obtained from the auditor's other work – including previous work on value-for-money arrangements, work completed as part of the audit of the financial statements, and the audited body's response to this work;
- the work of inspectorates and other bodies – where the scope and results are relevant to the auditor's value-for-money responsibilities. The auditor is not required to quality assure or re-perform the work of others and may use such work to the extent that, in their judgement, it is appropriate to do so; and
- any other evidence source that the auditor regards as necessary to facilitate the performance of their statutory duties.

<sup>3</sup> Section 20(1)(c) Local Audit and Accountability Act 2014 and Schedule 10(1)(d) National Health Service Act 2006.

**3.10** Ultimately, it is a matter for the auditor's judgement on the extent of work necessary to support their conclusion on value-for-money arrangements.

**3.11** The auditor should document the results of their consideration. Where the auditor identifies risks that have the potential to cause the auditor to reach an inappropriate conclusion, the auditor should document their planned response, informed by discussion of these risks with the audited body.

**3.12** The auditor should document the results of their work conducted in response to identified risks. Where appropriate, the auditor should update their planned work to reflect emerging risks or findings. The auditor should document any changes to their planned work.

**3.13** In reviewing the audited body's value-for-money arrangements, it is not part of the auditor's function to question the merits of the audited body's policy decisions. However, the auditor may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. In making recommendations, the auditor should avoid any perception that they have any role in the decision-making arrangements of the audited body.

**3.14** The auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report as appropriate to:

- audited bodies other than health service bodies – providing a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period; or
- health service bodies, including NHS foundation trusts – reporting by exception if the auditor concludes that they are not satisfied that the audited body has put in place proper arrangements to secure value for money in the use of its resources for the relevant period.

**3.15** Where required, the auditor should report their conclusion on the audited body's arrangements having regard to specific reporting criteria.

**3.16** The NAO, on behalf of the Comptroller and Auditor General, will specify detailed reporting requirements for the auditor's work on value-for-money arrangements in guidance to auditors.

# Chapter Four

## Reporting the results of the auditor's work

**4.1** This chapter addresses the auditor's statutory duties for reporting the results of their work as summarised within *Schedule 1 The auditor's statutory responsibilities*. The auditor of a body that meets the qualifying conditions of a smaller authority should apply modified procedures as set out in Chapter Six of the Code, unless the body chooses to be treated as a full audit authority in accordance with regulations made under section 5 of the Act.

**4.2** The auditor should report the results of their work using a range of outputs at the appropriate point in the audit process as set out below:

### **Planning the audit**

- audit planning report – sets out how the auditor intends to carry out their duties in respect of the accounts in accordance with auditing standards. In addition to planned work on the audit of the financial statements, the audit planning report should encompass the auditor's planned work to meet their duties in respect of the audited body's arrangements to secure value for money through the economic, efficient and effective use of its resources. The responsibility for establishing the overall audit strategy and the audit plan rests solely with the auditor. The auditor should discuss their risk assessment and planned approach as set out in the audit planning report with management and with those charged with governance.

### **Completion of audit fieldwork**

- report to those charged with governance – the auditor should report to those charged with governance:
  - the results of their audit of the financial statements, consistent with the requirements of auditing standards;
  - the results of their work in respect of the audited body's arrangements to secure value for money through the economic, efficient and effective use of its resources; and
  - the results of any additional work undertaken in accordance with their statutory powers and duties.

### **Conclusion of the audit**

- audit report – the audit report should cover the following:
  - the results of the auditor’s work on the financial statements as set out at paragraphs 2.6 to 2.12 of the Code; and
  - the results of the auditor’s work on the audited body’s value-for-money arrangements as set out at paragraphs 3.5 and 3.16 of the Code.

The audit report should also include, by exception, any report by the auditor on a range of additional matters as appropriate. *Schedule 2 Audit report – Inclusion of additional matters by exception* sets out these additional matters and the types of audited body to which each applies.

The partner or director who is the relevant engagement lead should sign the audit report with his or her name as well as the name of the firm of auditors.

- statement on consolidation schedules – the auditor should provide a statement on whether any schedules or returns the audited body is required to produce for the purposes of preparing consolidated accounts are consistent with the audited body’s financial statements for the relevant reporting period. The auditor’s statement should refer to any modification of the auditor’s opinion on the financial statements.
- annual audit letter – the annual audit letter should provide a clear, readily understandable commentary on the results of the auditor’s work and highlight any issues that the auditor wishes to draw to the attention of the public.

The requirement to issue an annual audit letter does not apply to the audit of foundation trusts, where separate arrangements are in place governing public availability of information with regard to performance and accountability.

- audit completion certificate – the auditor should certify the completion of the audit. The effect of the certificate is to close the audit. This marks the point when the auditor’s responsibilities in respect of the audit of the period covered by the certificate have been discharged. There may be occasions when the auditor is able to issue the audit report, but cannot certify completion of the audit as certain non-material issues remain outstanding. In such circumstances, the auditor should consider whether to issue their audit report ahead of certifying closure of the audit. Where the auditor intends to take this action in respect of an NHS foundation trust, the auditor should notify Monitor in advance.

## Any stage during the audit

**4.3** The auditor may progress the actions and outputs identified below at any stage during their work:

- communication on specific elements of the auditor's work – the auditor should maintain regular communication with the audited body to ensure that emerging findings are raised on a timely basis in the form, and at the level within the audited body, that the auditor judges appropriate.
- reports in the public interest – the auditor should consider whether, in the public interest, they should report on any matter that comes to their notice so that it is brought to the attention of the audited body and the public:
  - when preparing and issuing reports in the public interest, the auditor should tailor their approach to the urgency and significance of their concerns. The auditor should make a report during the audit if they consider the matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency;
  - if the auditor issues a report in the public interest, this should be referred to in the auditor's report and, where one is required, the annual audit letter.
- written recommendations – the auditor should consider whether to use the powers the Act provides to make written recommendations to the audited body which need to be considered by the body and responded to publicly. Where the auditor considers it necessary to make such recommendations, these can be made during or at the end of the audit and can be included, where relevant, within other written outputs from the audit or they may be the subject of a specific report to the audited body. The power to make such recommendations under the Act does not apply to the auditors of NHS foundation trusts.
- referral of matters arising – the auditor of an NHS body has a duty to consider whether there are any issues arising during their work that indicate possible or actual unlawful expenditure or action leading to a possible or actual loss or deficiency that should be referred to the Secretary of State, NHS England or Monitor as appropriate. The auditor should still consider the need for a report in the public interest in respect of matters so referred.

# Chapter Five

## The auditor's additional powers and duties

**5.1** This chapter addresses the auditor's use of certain additional powers and duties as summarised below. These powers and duties apply to the different types of bodies covered by the Code other than health service bodies.

<b>Power or Duty</b>	<b>Legislation</b>
To give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts	Sections 26 and 27 Local Audit and Accountability Act 2014
To apply to the court for a declaration that an item of account is contrary to law	Section 28 Local Audit and Accountability Act 2014
To consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review	Sections 29 and 31, Schedule 8 Local Audit and Accountability Act 2014

**5.2** In exercising any of the above powers and duties, including when performing a smaller authority assurance engagement as specified at Chapter Six of the Code, the auditor should tailor their approach to the particular circumstances of the matters under consideration.

**5.3** Where any representations are made to the auditor or information is provided that is relevant to the audit or smaller authority assurance engagement, or relevant matters otherwise come to their attention, the auditor should consider whether the matter needs investigation and action under these additional powers and duties or whether it can be considered more effectively within planned work programmes and reporting arrangements under the auditor's other audit or smaller authority assurance engagement responsibilities.

**5.4** In considering whether to exercise any of their additional powers and duties, and in determining the time and resource to be spent on dealing with matters that come to their attention, the auditor should consider the relevant requirements of the Act and:

- the significance of the subject matter;
- whether there is wider public interest in the issues raised;
- whether the substance of the matter has been considered previously by the body's auditor;
- whether the substance of the matter falls within the scope of work conducted by an inspectorate or other body;
- the costs of dealing with the matter, bearing in mind that these are borne by the taxpayer; and
- in the case of objections, the rights of both those subject to objection and of the objector.

# Chapter Six

## Smaller authority assurance engagements

**6.1** This chapter addresses the auditor's statutory duties in respect of the audit of the accounts of smaller authorities as set out in the Act and in relevant regulations made by the Secretary of State. Under the Act and supporting regulations, an audit means carrying out the assurance engagement functions of a local auditor in relation to the accounts of the smaller authority:

- in compliance with the relevant parts of this Code; and
- in accordance with any procedures specified in guidance issued by the National Audit Office on behalf of the Comptroller and Auditor General.

**6.2** A smaller authority is one whose annual income or annual expenditure is below a financial threshold as prescribed in relevant regulations. The NAO, on behalf of the Comptroller and Auditor General, will provide details of relevant thresholds in guidance to auditors.

### **Responsibilities of the smaller authority**

**6.3** A smaller authority is responsible for putting in place arrangements to ensure the proper conduct of their financial affairs and to monitor the adequacy and effectiveness of those arrangements in practice. A smaller authority should maintain proper accounting records and control systems and operate an adequate system of internal audit of those accounting records and control systems.

**6.4** A smaller authority should prepare and publish financial statements and related information within an annual return in accordance with proper practices specified by the Secretary of State.



### **Responsibilities of the auditor (smaller authority assurance engagements)**

**6.5** Unless the smaller authority is exempt under regulations, or chooses to be treated as a full audit authority in accordance with regulations, the auditor of a smaller authority should undertake a smaller authority assurance engagement. The auditor should meet their responsibility under this engagement by performing specified procedures as set out in guidance to auditors provided by the NAO on behalf of the Comptroller and Auditor General.

### **Responsibilities of the auditor (additional powers and duties)**

**6.6** When conducting a smaller authority assurance engagement, or performing work as a consequence of questions or objections from a local elector, the auditor should follow the requirements of Chapter Five – The auditor’s additional powers and duties together with the following elements of paragraph 4.3 of the Code:

- communication on specific elements of the auditor’s work;
- reports in the public interest; and
- written recommendations.

# Schedule 1

## The auditor's statutory responsibilities

Schedule 1 aims to provide an accessible view of auditors' responsibilities. To achieve this, the schedule summarises (rather than reproduces) relevant sections of the Act. The schedule is not intended to be a substitute for consideration of the detailed requirements of the Act itself.

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### Schedule 1

#### The auditor's statutory responsibilities

##### Audited bodies other than health service bodies

##### Statute

##### Audit scope

To be satisfied that the accounts comply with the requirements of the enactments that apply to them

Section 20(1)(a) Local Audit and Accountability Act 2014

To be satisfied that proper practices have been observed in the preparation of the statement of accounts and that the statement presents a true and fair view

Section 20(1)(b) Local Audit and Accountability Act 2014

To be satisfied that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources

Section 20(1)(c) Local Audit and Accountability Act 2014

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##### Reporting

To express an opinion on the accounts

Section 20(2)(b) Local Audit and Accountability Act 2014

To certify completion of the audit

Section 20(2)(a) Local Audit and Accountability Act 2014

Where appropriate, to give an opinion on the part of the financial statements that relates to a pension fund maintained by the authority under regulations under section 1 of the Public Service Pensions Act 2013

Section 20(3) Local Audit and Accountability Act 2014

To consider the issue of a report in the public interest

Section 24, Schedule 7 paragraph 1(1) Local Audit and Accountability Act 2014

To consider whether to make a written recommendation to the audited body, copied to the Secretary of State

Section 24, Schedule 7 paragraph 2 Local Audit and Accountability Act 2014

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##### Additional powers and duties

To give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Sections 26 and 27 Local Audit and Accountability Act 2014

To apply to the court for a declaration that an item of account is contrary to law

Section 28 Local Audit and Accountability Act 2014

To consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review

Sections 29 and 31, Schedule 8 Local Audit and Accountability Act 2014

To comply with the Code of Audit Practice prepared by the Comptroller and Auditor General and approved by Parliament

Section 20(5) Local Audit and Accountability Act 2014

To have regard to any guidance to auditors issued by the Comptroller and Auditor General

Section 20(6) Local Audit and Accountability Act 2014

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**Schedule 1** *continued*

## The auditor's statutory responsibilities

**Clinical Commissioning Groups****Statute****Audit scope**

To be satisfied that the accounts present a true and fair view, and comply with the requirements of the enactments that apply to them

Section 21(1)(a) Local Audit and Accountability Act 2014

To be satisfied that proper practices have been observed in the preparation of the accounts

Section 21(1)(b) Local Audit and Accountability Act 2014

To be satisfied that the group has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources

Section 21(1)(c) Local Audit and Accountability Act 2014

To be satisfied that money provided by Parliament has been expended for the purposes intended by Parliament

Section 21(1)(d) Local Audit and Accountability Act 2014

To be satisfied that resources authorised by Parliament to be used have been used for the purposes in relation to which the use was authorised

Section 21(1)(e) Local Audit and Accountability Act 2014

To be satisfied that the financial transactions of the group are in accordance with any authority which is relevant to the transactions

Section 21(1)(f) Local Audit and Accountability Act 2014

**Reporting**

To express an opinion on the accounts that includes the auditor's view on whether the accounts: (i) present a true and fair view and comply with statutory requirements (ii) have been prepared in accordance with proper practices

Section 21(4) and (5) Local Audit and Accountability Act 2014

The auditor's opinion must include their view on the regularity of the body's income and expenditure i.e. that money provided by Parliament has been expended for the purposes intended by Parliament; resources authorised by Parliament to be used have been used for the purposes in relation to which the use was authorised; and that the financial transactions of the group are in accordance with any authority which is relevant to the transactions

The auditor's opinion on the audited body's arrangements to secure economy, efficiency and effectiveness in the use of resources should only be provided if the auditor is not satisfied with the arrangements in place

To certify completion of the audit

Section 21(4)(a) Local Audit and Accountability Act 2014

Where appropriate, to give an opinion on the part of the financial statements that relates to a pension fund maintained by the authority under regulations under section 1 of the Public Service Pensions Act 2013

Section 20(3) Local Audit and Accountability Act 2014

To consider the issue of a report in the public interest

Section 24, Schedule 7(1)(1) Local Audit and Accountability Act 2014

To consider whether to make a written recommendation to the audited body, copied to the Secretary of State

Section 24, Schedule 7(2) Local Audit and Accountability Act 2014

To refer the matter to the Secretary of State and NHS England if the auditor believes that the audited body or an officer of the audited body is:

Section 30 Local Audit and Accountability Act 2014

- about to make, or has made, a decision which involves or would involve the body incurring unlawful expenditure;
- about to take, or has begun to take, a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency

**Schedule 1** *continued*

## The auditor's statutory responsibilities

**Clinical Commissioning Groups** *continued***Statute****Additional duties**

To comply with the Code of Audit Practice prepared by the Comptroller and Auditor General and approved by Parliament

Section 20(5) Local Audit and Accountability Act 2014

To have regard to any guidance to auditors issued by the Comptroller and Auditor General

Section 20(6) Local Audit and Accountability Act 2014

**Hospital Special Trustees, NHS Trusts, NHS Trust Trustees****Statute****Audit scope**

To be satisfied that the accounts present a true and fair view, and comply with the requirements of the enactments that apply to them

Section 21(3)(a) Local Audit and Accountability Act 2014

To be satisfied that proper practices have been observed in the preparation of the accounts

Section 21(3)(b) Local Audit and Accountability Act 2014

To be satisfied that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources

Section 21(3)(c) Local Audit and Accountability Act 2014

**Reporting**

To express an opinion on the accounts that includes the auditor's view on whether the accounts: (i) present a true and fair view and comply with statutory requirements (ii) have been prepared in accordance with proper practices.

Section 21(4) and (5) Local Audit and Accountability Act 2014

The auditor's opinion on the audited body's arrangements to secure economy, efficiency and effectiveness in the use of resources should only be provided if the auditor is not satisfied with the arrangements in place

To certify completion of the audit

Section 21(4)(a) Local Audit and Accountability Act 2014

Where appropriate, to give an opinion on the part of the financial statements that relates to a pension fund maintained by the authority under regulations under section 1 of the Public Service Pensions Act 2013

Section 20(3) Local Audit and Accountability Act 2014

To consider the issue of a report in the public interest

Section 24, Schedule 7(1)(1) Local Audit and Accountability Act 2014

To consider whether to make a written recommendation to the audited body, copied to the Secretary of State

Section 24, Schedule 7(2) Local Audit and Accountability Act 2014

To refer the matter to the Secretary of State if the auditor believes that the audited body or an officer of the audited body is:

Section 30 Local Audit and Accountability Act 2014

- about to make, or has made, a decision which involves or would involve the body incurring unlawful expenditure;
- about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency

**Additional duties**

To comply with the Code of Audit Practice prepared by the Comptroller and Auditor General and approved by Parliament

Section 20(5) Local Audit and Accountability Act 2014

To have regard to any guidance to auditors issued by the Comptroller and Auditor General

Section 20(6) Local Audit and Accountability Act 2014

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**Schedule 1** *continued*

## The auditor's statutory responsibilities

**NHS foundation trusts****Statute****Audit scope**

To be satisfied that the accounts comply with the directions provided	Schedule 10(1)(a) National Health Service Act 2006
To be satisfied that the accounts comply with the requirements of all other provisions contained in, or having effect under, any enactment which is applicable to the accounts	Schedule 10(1)(b) National Health Service Act 2006
To be satisfied that proper practices have been observed in compiling the accounts	Schedule 10(1)(c) National Health Service Act 2006
To be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources	Schedule 10(1)(d) National Health Service Act 2006

**Reporting**

To express an opinion on the accounts	Schedule 10(4)(1)(b) National Health Service Act 2006
To certify completion of the audit	Schedule 10(4)(1)(a) National Health Service Act 2006
To consider the issue of a report in the public interest	Schedule 10(3) National Health Service Act 2006
To report to the regulator if the auditor has reason to believe that the audited body (or a director or officer of the audited body) is: <ul style="list-style-type: none"> <li>● about to make, or has made, a decision which involves or would involve unlawful expenditure;</li> <li>● about to take, or has taken, a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency</li> </ul>	Schedule 10(6) National Health Service Act 2006

**Additional duties**

To comply with the Code of Audit Practice prepared by the Comptroller and Auditor General and approved by Parliament	Section 20(5) Local Audit and Accountability Act 2014
To have regard to guidance to auditors issued by the Comptroller and Auditor General	Section 20(6) Local Audit and Accountability Act 2014

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# Schedule 2

## Audit report: Inclusion of additional matters by exception

Schedule 2 aims to provide an accessible view of auditors' responsibilities. To achieve this, the schedule summarises (rather than reproduces) relevant sections of the Act. The schedule is not intended to be a substitute for consideration of the detailed requirements of the Act itself.

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### Schedule 2

#### Audit report: Inclusion of additional matters by exception

Auditor reports by exception	Type of audited body		
	Audited bodies other than health service bodies	Health service bodies other than NHS foundation trusts	NHS foundation trusts
Matters reported in the public interest	✓	✓	✓
Written recommendations made to the audited body under Section 24 of the Local Audit and Accountability Act	✓	✓	N/A
Application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014	✓	N/A	N/A
Issue of an advisory notice under Section 29 of the Local Audit and Accountability Act 2014	✓	N/A	N/A
Application for judicial review under Section 31 of the Local Audit and Accountability Act 2014	✓	N/A	N/A
Referral to the Secretary of State/NHS England under Section 30 of the Local Audit and Accountability Act 2014	N/A	✓	N/A
Referral to the regulator under Schedule 10 of the National Health Service Act 2006	N/A	N/A	✓

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# Appendix One

## Types of local public body covered by the Code

As at April 2015, auditors of the following types of local public body should comply with the Code:

- 1 A county council in England
- 2 A district council
- 3 A London borough council
- 4 A parish council
- 5 A joint authority established under Part 4 of the Local Government Act 1985
- 6 A Passenger Transport Executive
- 7 The Greater London Authority (GLA)
- 8 A functional body of the GLA
- 9 The London Pensions Fund Authority
- 10 The London Waste and Recycling Board
- 11 The Common Council (to the extent that it exercises functions in relation to –  
(a) the collection fund of the Common Council (b) the City Fund or (c) a pension fund maintained and administered by the Common Council under regulations under section 1 of the Public Service Pensions Act 2013)
- 12 A parish meeting
- 13 The Council of the Isles of Scilly
- 14 Charter Trustees
- 15 A port health authority for a port health district that is wholly in England
- 16 The Broads Authority

- 17 A National Park authority for a National Park in England
- 18 A conservation board established by order of the Secretary of State under section 86 of the Countryside and Rights of Way Act 2000
- 19 A police and crime commissioner for a police area in England
- 20 A chief constable for an area in England
- 21 The Commissioner of Police for the Metropolis
- 22 A fire and rescue authority in England constituted by a scheme under section 2 of the Fire and Rescue Services Act 2004 or a scheme to which section 4 of that Act applies
- 23 A clinical commissioning group
- 24 Special trustees for a hospital
- 25 An authority established for an area in England by an order under section 207 of the Local Government and Public Involvement in Health Act 2007 (joint waste authorities)
- 26 An internal drainage board for an internal drainage district that is wholly in England
- 27 An economic prosperity board established under section 88 of the Local Democracy, Economic Development and Construction Act 2009
- 28 A combined authority
- 29 Any person or body exercising functions in relation to an area wholly in England or partly in England and partly in Wales – (a) which was originally subject to audit provisions contained in an enactment passed before the Audit Commission Act 1998, and (b) to which the audit provisions of that Act applied by virtue of paragraph 4(1) or 7 of Schedule 4 to that Act immediately before the repeal of section 2(1) of that Act by this Act
- 30 An NHS foundation trust
- 31 An NHS trust
- 32 A trustee for an NHS trust (appointed under paragraph 10 of schedule 4 to the NHS Act 2006)

The auditor of any local public body not listed above which, by enactment, is required to comply with the Code.



# Glossary

<b>Term</b>	<b>Definition</b>
Accounting standards	Accounting standards are authoritative statements of how transactions and balances are to be recognised, measured, presented and disclosed in financial statements.
Annual report	The annual report describes the aims and achievements of an audited body during a particular year. Health bodies are required to publish an annual report alongside their financial statements. While not required to do so, local government bodies often provide an annual report alongside their financial statements.
Auditing standards	Standards, issued by the Financial Reporting Council, which auditors are required to comply with when conducting an audit of the financial statements.
Auditor	A firm appointed to audit a body covered by the provisions of the Local Audit and Accountability Act 2014.
Code (the)	The Code of Audit Practice issued by the Comptroller and Auditor General and approved by Parliament.
Consolidated accounts	Financial statements of a group in which the assets, liabilities, reserves, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.
Corporate governance	The system of structures, rights, duties, and obligations by which organisations are directed and controlled.
Engagement lead	This is the person who has primary responsibility for the audit – often referred to as the key audit partner.
Ethical standards	Standards, issued by the Financial Reporting Council, that auditors are required to comply with when conducting an audit of the financial statements.
Financial statements	Statements that audited bodies are required to prepare setting out what they spend and receive and what they own and owe. For the purpose of providing the auditor's opinion, the Code interprets relevant references in the Act to the 'statement of accounts' and the 'accounts' in respect of the general duties of auditors as equivalent to 'financial statements'.
Full audit authority	A relevant authority not subject to the 'smaller authority assurance' arrangements set out in Chapter Six of the Code.

<b>Term</b>	<b>Definition</b>
Governance statement	Audited bodies are required to prepare a governance statement alongside their financial statements. It brings together in one place an audited body's disclosures about its governance framework, including risk management and internal control, and how this has operated during the year.
Have regard to	The Code requires the auditor to 'have regard to' guidance provided by the National Audit Office on behalf of the Comptroller and Auditor General. This means that the auditor is expected to comply with this guidance or provide a reasonable explanation within audit documentation as to why they have not done so.
Inspectorates and other bodies	Bodies that have responsibilities for the inspection, regulation or oversight of audited bodies – for example, Her Majesty's Inspectorate of Constabulary and the Care Quality Commission. This also includes bodies that perform external challenge or improvement activities.
Principal body	A body that is covered by the Code and does not meet the criteria of a smaller authority – as prescribed in the Local Audit and Accountability Act 2014, which is subject to amendment in regulations by the Secretary of State.
Professional standards	In the context of the Code, professional standards comprise auditing standards, ethical standards and quality standards – these are defined in this glossary.
Quality control standards	International Standard on Quality Control 1 issued by the International Auditing and Assurance Standards Board (IAASB) or any other relevant standards with which auditors are required to comply.
Recognised supervisory body	Professional accountancy bodies recognised by the Financial Reporting Council as responsible for licensing, registering and monitoring the work of the auditor and for supervising the conduct of their members.
Regulations	Secondary legislation made by the Secretary of State using powers conferred by an Act of Parliament.
Remuneration report	A remuneration report provides details of senior managers' salary, pension and other benefits.
Report by exception	Reporting only when information or the results of the auditor's work are materially inconsistent with their understanding of the body or the requirements placed on the body.
Should	The Code of Audit Practice has been approved by Parliament. It has the status of secondary legislation and auditors' compliance with the Code is mandatory. The use 'should' highlights a specific requirement placed on the auditor within the Code.

<b>Term</b>	<b>Definition</b>
Significance	The concept of 'significance' applies to the auditor's wider responsibilities that are not addressed by the auditor's assessment of materiality for the audit of the financial statements. A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.
Smaller authority	<p>Defined in the Local Audit and Accountability Act 2014, the key condition is met for an authority in a financial year if the higher of the authority's gross income and gross expenditure for the year does not exceed £6.5 million.</p> <p>This threshold is subject to amendment in regulations by the Secretary of State.</p>
Those charged with governance	The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.
Value-for-money arrangements	<p>Arrangements that an audited body puts in place to support the achievement of value for money, i.e. making the best use of its resources through:</p> <ul style="list-style-type: none"> <li>● Economy – minimising the cost of resources used or required.</li> <li>● Efficiency – obtaining an optimal relationship between the resources used and the outputs/impacts achieved.</li> <li>● Effectiveness – achieving alignment between intended and actual outcomes.</li> </ul>
Whole of Government Accounts	The Whole of Government Accounts (WGA) are the consolidated financial statements for the whole of the UK public sector, showing what the UK government spends and receives, and what it owns and owes.







National Audit Office