



National Audit Office

Consultation response document

by the National Audit Office

Local audit in England
Code of Audit Practice

Draft Code of Audit Practice:
Consultation response

JANUARY 2020

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office (NAO) helps Parliament hold government to account for the way it spends public money. It is independent of government and the civil service. The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether government is delivering value for money on behalf of the public, concluding on whether resources have been used efficiently, effectively and with economy. The NAO identifies ways that government can make better use of public money to improve people's lives. It measures this impact annually. In 2018 the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £539 million.

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Introduction

1 The Local Audit and Accountability Act 2014 (the Act) makes the Comptroller and Auditor General (C&AG) responsible for the preparation and maintenance of the Code of Audit Practice (the Code) and gives the C&AG the power to issue guidance to auditors in support of the Code, to which auditors must have regard when carrying out their work. Schedule 6 of the 2014 Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015 and a new Code needs to be laid in Parliament in time for it to come into force no later than 1 April 2020.

2 In March 2019, the C&AG published an 'Issues Paper' seeking views on the issues relevant to the development of the next Code of Audit Practice. The document formed Stage 1 of a two-stage consultation process. Stage 2 – a public consultation on an exposure draft of the new Code – was launched on 29 August and closed on 22 November 2019.

3 This document sets out the issues we have considered as a result of the feedback to Stage 2 of the consultation, and highlights the key changes made to the text of the final draft of the Code. The final draft of the Code has now been laid in Parliament and, subject to Parliamentary approval, will come into force on 1 April 2020.

4 We received a total of 38 responses to Stage 2 of the consultation. Appendix One provides a list of respondents. We also held further discussions with a range of stakeholders to inform the text of the new Code.

5 We are very grateful to those who took the time to participate in the consultation. In addition to comments on the exposure draft of the new Code, respondents also offered comments and suggestions that will be very helpful to us in developing the supporting statutory guidance for the new Code.

6 We are now developing the detailed statutory Auditor Guidance Notes (AGNs) that will support the new Code. The most significant changes will be made to the guidance on auditors' work on arrangements to secure value for money (AGN 03) and auditor reporting (AGN 07). We plan to engage with stakeholders to develop this guidance over the coming months and will consult publicly in the summer/autumn of 2020.

7 Audit work under the new Code will begin from the 2020-21 financial year onwards, meaning the first Auditor's Annual Reports will be issued in 2021. Work on 2019-20 audits will continue to be delivered and reported under the 2015 Code.

Background and context

Scope of the consultation

8 The Code is a key document setting out how local auditors in England meet their responsibilities under the 2014 Act.

9 Through Stage 1 and State 2 of the consultation, we were asked whether we had considered delaying the development of a new Code to align with reviews, such as the Redmond and Brydon Reviews. We considered this, but did not delay our work on a new Code because:

- the existing legal requirements set out in the Local Audit and Accountability Act 2014 require the current Code to be reviewed and replaced at least every five years, so a replacement Code needs to be in place by April 2020;
- the changes in the Code are principles-based. This means that they should not fetter any subsequent changes that may or may not need to be considered as a result of the Redmond or Brydon Reviews; and
- the Code deals only with the work of auditors, so some of the other issues under review, such as local authority financial reporting as part of the Redmond Review, do not affect the text of the Code directly.

10 Sir Donald Brydon published his report on the quality and effectiveness of audit on 18 December 2019. The review makes a number of significant recommendations, including improving the need for auditor reporting to be clearer and more informative, and revisiting the extent to which audit work considers and reports on financial resilience. While the review findings are aimed at audit in the corporate sector, where these lead to changes in auditing standards, the Code's requirement for auditors to comply with auditing standards will automatically apply them to local public audit.

11 The changes the Code makes to auditors' work on arrangements to secure value for money and the introduction of the Auditor's Annual Report are consistent with these expectations.

Summary of consultation response and key changes to the text of the final draft of the Code

12 In Stage 2 of the consultation, we issued an exposure draft of the new Code. We asked for comments on the text of the new Code itself, so respondents could draw attention to any particular points or concerns that we should consider when finalising the text.

13 This section of the response document follows the structure of the new Code. It focuses on the main themes arising as a result of respondents' feedback and highlights the changes we have made to the final text of the new Code as a result. We have not, however, highlighted more minor drafting changes where they do not substantially impact on the requirements of the Code.

General Points

14 To provide clarity in the Code itself regarding the status of auditor guidance, we have clarified where references to 'guidance' are references to statutory guidance to which auditors must have regard. This is to distinguish those references from others relating to guidance issued by other authorities.

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

15 The final draft of the Code maintains the principles-based approach through a single Code covering both local government and NHS sectors.

16 To provide clarity in the Code on the date when the Code comes into force and the audits to which the new Code will apply, we have included additional text at paragraph 1.5 of the new Code that sets out transitional arrangements. This will make it clearer whether it is the 2015 Code or the 2020 Code that applies to an audit, especially where audit work from previous years remains outstanding.

Section Two: Audit of the financial statements

17 The current Code requires auditors to comply with auditing standards currently in force (and as may be amended from time to time), having regard to any other relevant guidance and advice issued by relevant regulatory bodies, such as the Financial Reporting Council and National Audit Office.

18 The exposure draft added the option to introduce extended auditor reporting in other sectors. We received broad support for the introduction of this option, subject to further consultation with the relevant sectors.

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

19 Respondents were largely in support of a narrative-style commentary against specified criteria, although some expressed concern this will make comparisons between bodies and between sectors more difficult. In our view, the inclusion of a requirement in the Code to make recommendations where the auditor is not satisfied with the arrangements in place will allow for some comparison between bodies.

20 Respondents also stressed that the supporting statutory guidance should clearly set out an expectation that the commentary will provide effective and meaningful reporting on the adequacy of arrangements, and not simply describe the arrangements that the body has in place.

21 The final draft of the Code retains the three reporting criteria set out in the exposure draft, but we have removed the option to introduce additional reporting criteria during the lifetime of the Code. This concerned some respondents, who thought this could lead to an extension of scope and an increase in costs. We will instead address any emerging issues relevant to the reporting criteria through the underlying statutory guidance.

22 Some respondents suggested that the Code should include a reporting criterion covering partnership working. It is our intention that arrangements to support effective partnership working remain within scope of the auditor's work on value-for-money arrangements. We will therefore clarify in the supporting statutory guidance that arrangements in respect of partnership working should be considered as part of the work under the criterion looking at arrangements for improving economy, efficiency and effectiveness.

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

23 Local auditors undertake a key role in providing local bodies, local people and other stakeholders with independent assurance about their financial statements and arrangements to manage their business and finances and the Code has an important role in setting the expectations for when and how local auditors report issues to the bodies they audit.

24 Respondents were generally supportive of the new Code's emphasis on meaningful and timely reporting, linked to clear recommendations for improvement.

25 Some respondents expressed concerns that the option to delay issuing the Auditor's Annual Report would leave too large a gap for local NHS bodies, especially considering the extent to which national bodies such as NHS Improvement and NHS England draw on local auditors' findings to inform their own annual governance statements.

26 We have therefore considered the reporting deadline for NHS bodies and have amended paragraph 4.6 of the final draft of the Code to align the deadline for issuing the Auditor's Annual Report, so that it is issued at the same time as their opinion on the financial statements. For local government bodies, including fire and police bodies, the deadline for the Auditor's Annual Report remains no later than 30 September.

27 The 2014 Act also requires – for Clinical Commissioning Groups and NHS trusts – that auditors reflect in their statutory report on the financial statements where they are not satisfied with the body's arrangements to secure value for money. In finalising the Code, we have applied this principle to all bodies subject to value-for-money arrangements work in paragraph 4.5. We will specify in supporting statutory guidance how auditors should meet this requirement.

Section Five: The auditor's additional powers and duties

28 Responses to Section Five generally welcomed the addition of clearer expectations about how quickly auditors should consider and respond to local electors' objections.

29 However, some respondents noted that the exposure draft of the Code no longer included a summary of the considerations auditors should take into account when determining whether to exercise their additional powers, which they considered helpful (this is included at paragraph 5.4 of the existing Code). We have reinstated this paragraph in the text of the final draft of the Code.

Section Six: Smaller authority assurance engagements

30 Smaller authorities are those whose annual gross expenditure is below £6.5 million. Examples of smaller authorities include town and parish councils, parish meetings, and internal drainage boards.

31 Local auditors undertake their work following specified procedures set out in guidance by the C&AG.

32 Respondents were supportive of the greater emphasis on the principle of proportionality in informing the work local auditors undertake. We received some comments suggesting that the auditor's work should be more extensive at smaller authorities with income or expenditure closer to the £6.5 million threshold. We will consider this as part of developing future statutory guidance.

Appendix One

Respondents to the consultation were as follows:

- Audit Scotland
- Basildon Council
- BDO
- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Christopher King of King Associates
- Deloitte
- Department of Health & Social Care
- Devon County Council
- District Councils' Network
- Ernst & Young
- Grant Thornton
- Healthcare Financial Management Association (HFMA)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- Institute of Chartered Accountants Scotland (ICAS)
- Jenny Simpson
- Kettering Borough Council
- KPMG
- Leicester City Council
- Leicestershire County Council
- Local Government Association (LGA)
- Mazars

- National Association of Local Councils (NALC)
- NHS England & NHS Improvement
- Northern Ireland Audit Office
- PKF Littlejohn
- Police and Crime Commissioner for Thames Valley
- Police, Fire and Crime Commissioner for Essex
- Public Sector Audit Appointments (PSAA)
- PwC
- Research For Action
- Sleaford Town Council
- Smaller Authority Audit Appointments (SAAA)
- Society of District Council Treasurers
- Tameside and Glossop Integrated Care NHS Foundation Trust
- University College London Hospitals NHS Foundation Trust
- Wales Audit Office
- West Yorkshire Combined Authority
- Wyre Forest District Council

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