

Local Audit Quality Forum

Practical Help for Audit Committees

10 June 2019

Welcome to the Third Local Audit Quality Forum

Steve Freer, Chair, PSAA

WHAT SHOULD THE AUDIT COMMITTEE LOOK FOR IN THE FINANCIAL STATEMENTS?

Tony Crawley, Chief Executive PSAA,
in consultation with Ian Fifield, Fifield
Training Limited

What we will cover in this session

- A brief overview of the law, rules and regulation surrounding the Financial Statements
- How to read the Statements and what to look for
- Questions to consider

The Annual Financial Statements

- Prepared annually, subjected to audit and then published
- The Accounts and Audit Regulations 2015 (as amended) give the following deadlines:
 - Pre-audit financial statements to be approved by the Responsible Financial Officer by 31st May;
 - Audited statements to be suitably approved and published by 31st July, or publish a statement explaining why they are not available.
- Content and format is largely prescribed by the Code of Practice on Local Authority Accounting in the UK (CIPFA)

Expected Accounts Preparation Timeline

Year end 31 March

Outturn Report
(Reports spending etc. against budget)

Pre-audit Financial Statements by 31 May
(Best practice to involve the Audit Committee)

External Audit

Audited Financial Statements approved
by 31 July

Before you start....

- Review last year's ISA 260/Annual Audit Letter – have any recommendations been dealt with?
- Are there any issues that might affect the actual Statements or their preparation (e.g. changes in key finance staff)?
- Have the internal or external auditors reported any issues or concerns to you during the year?

Two ways of looking at the finances

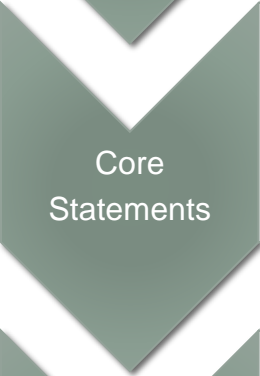


Financial Statements Route Finder




Narrative Report

- A good place to start!
- Summary of key information



Core Statements

- 4 core statements



Notes & Supplementary Statements

- Narrative information
- Breakdowns of figures

The Narrative Report

- A very useful summary of the past year
 - Details of overall spending against budget
 - Summarises the overall financial position
 - Links finance with performance
 - Highlights any key significant events
 - Looks forward as well as backward
-
- Please encourage all key people to read this report!

There will be a Glossary of Terms within the document, but the Narrative Report should be accessible as possible.

Checklist of Issues

- The Narrative Report
 - Read this like an end of term report on the organisation's finances
 - Is the report consistent with core financial statements and your knowledge of what is happening within the organisation?
 - Is it written in a way that is understandable to a non-finance professional?

The Core Statements & EFA

- Expenditure and Funding Analysis (Note)
 - Comprehensive Income and Expenditure Statement
 - Movement in Reserves Statement
 - Balance Sheet
 - Cash Flow Statement
-
- Followed by notes providing more detail

Expenditure and Funding Analysis

- Reconciles the “funding” view in the Outturn Report to the “accounting” view in the CIES
- Key issues to note:
 - The Net (surplus) / Deficit on the General Fund in the year
 - And on the Housing Revenue Account if relevant
 - Are these balances in line with the financial projections?

Comprehensive Income and Expenditure Statement (CIES)

- The accounting view of the finances
- Shows the accounting cost of providing services in the year as defined under IFRS
- Includes costs that do not need to be "funded" e.g. depreciation, asset valuation movements
- Beware that the "bottom line" is not the same as any under or over spend in the year

The Movement in Reserves Statement

- Shows a summary of the increases and decreases in reserves over the year
- Further details can be found in the notes
- **Usable reserves**
 - Cash-backed and can be spent (either revenue or capital)
 - Make sure you understand the implications of movements during the year
- **Unusable reserves**
 - Not cash-backed and cannot be spent
 - Usually valuation changes e.g. Revaluation Reserves, Pension Reserves etc.

The Balance Sheet

- A financial snapshot of the financial position as at the 31st March
- Top half of statement:
 - Values the assets
 - Details the liabilities (short term and long term e.g. pension liabilities)
- Bottom half of the statement:
 - The reserves
 - Can be traced back to the Movement in Reserves Statement

The Cash Flow Statement

- Details the in and out movements of cash during the year
- Links to the opening and closing balances presented in the Balance Sheet
- Very important for private sector companies - less so for local government bodies

Checklist of issues

- Compare last year's figures to this year's - are any large differences adequately explained in the notes?
- Make sure you fully understand the reserves position, especially if the balances are falling
- Does anything look unusual? Is there a note to explain this? If not ask!

The Notes to the Accounts

- The accounting policies – are they tailored?
- Consider if the notes adequately explain the figures in core financial statements and variances to last year's figures
- Review major judgemental areas – do they make sense?
- Note the details of employee remuneration
- Consider any implications on any contingent liabilities

The Supplementary Statements

- Housing Revenue Account
 - The income and expenditure if the council is a provider of social housing
 - Similar to the CIES, but just for housing
- Collection Fund
 - Reports the collection and distribution of Council Tax and Business Rates
- Group accounts
 - May be required if there any arms-length companies or other interests

And finally from Ian....

- Consider items raised by external and internal audit
 - Have they qualified either of their opinions?
 - Ask about significance of any issues and recommendations, have they requested any significant audit adjustments?
 - Read the Annual Audit Letter prepared by external audit and ask about the impact on the finances
 - Consider the impact of any unadjusted mis-statements in the accounts
 - Make this the starting point for next year....

And from me....

- Tips for the Committee
 - The AGS and Narrative Report should be recognisable
 - The accounts are different – but don't be afraid to ask...
 - An informal session with officers can be invaluable
 - Work together as a Committee
 - Ask questions as early as possible
 - The adoption meeting is to hear primarily the results of the auditor's work – aim to have cleared all your questions for officers by then

Ian Fifield PhD, CPFA
Director, Fifield Training Ltd.
E-mail: ian@fifielddtraining.co.uk
Tel: 07710 955276

These training materials provide a view of current practice and contain general advice and comments only. You should seek further advice from your organisation's finance professionals before acting upon any of the specific issues covered within the materials or placing reliance upon them in any particular circumstances.

© 2019 Fifield Training Ltd. All rights reserved.

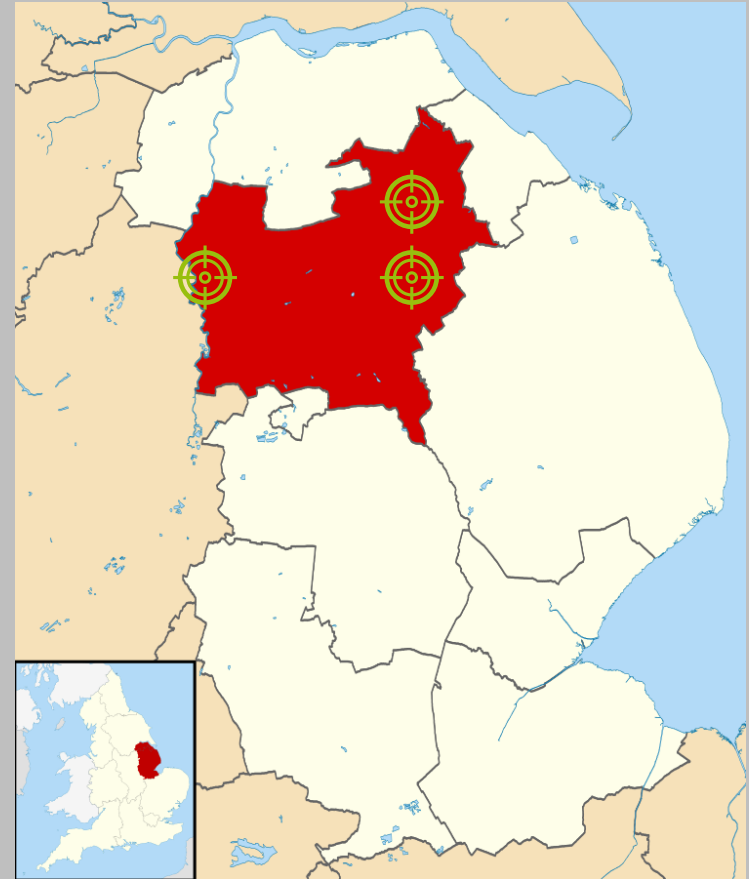
What is it like being a new Audit Committee Chair?

Cllr. Giles McNeill

Governance & Audit Committee Chairman (2014 – 2019)
West Lindsey District Council, Lincolnshire

Where's West Lindsey?

- Formed on 1st April 1974
- North-west part of Lincolnshire
- Towns: Caistor, Market Rasen and Gainsborough



Who am I?

- Elected in a by-election to West Lindsey District Council in September 2012
- Appointed **Deputy Chairman** of the Governance & Audit Committee in 2013
- Appointed **Chairman** of the Governance & Audit Committee in 2014
- Relinquished post at Annual Council 2019



EXERCISE

The Challenge

- Remaining impartial in a political environment
- Facing hard truths – and going looking for them
- Speaking truth to power
- Understanding assurance



Meeting the Challenge

- Financial skills need to be complemented with softer skills
- Understanding and Curiosity
- Perspective
- Training
- Relationships

Advice for a new Chair

- Be clear on your committee's responsibilities
- Ensure an open and listening culture with a collegiate approach
- Be prepared to work outside of meetings
- Build trust and maintain your reputation
- Integrity - Stand up for what you believe in

Advice for a new Chair

- Agenda – It's your meeting
- Take a strategic view of risks to the council
- Actively contribute to the Internal Audit work programme
- Relationships
 - Hold the S.151 officer to action while supporting him/her

Hints and Tips

- I wish I knew then what I know now
 - Looking back is what we do
 - You sign-off the Statement of Accounts
 - Toiling in obscurity; unless things go wrong!
 - Don't be afraid to go over the head of your officers to internal audit

- So what does a good Chair of an Audit Committee look like?
 - An **impartial** and **proactive** leader with **confidence** and **integrity**
 - An individual who has the **respect of colleagues** and has good financial skills
 - A good **knowledge** of the committee and risk register

- A good **listener** and **communicator** who can facilitate meetings
- A champion of **open** and **frank** discussions
- A **tenacious** person, prepared to ask, and allow to be asked, **tough questions**
- A person with the **time** to develop and closely monitor the committee's agenda.



QUESTIONS



THANK YOU

Refreshments and Networking

11:20-11:40

Support for Audit Committees from CIPFA

Diana Melville FCPFA
Governance Advisor CIPFA

Email: diana.Melville@cipfa.org

Call: 01722 349398 or 07825 343693

CIPFA's role in local government and police

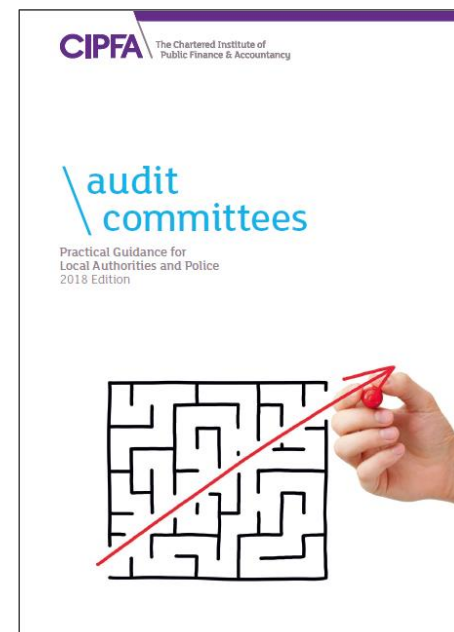
- Standard setter:
 - Accounting and financial management
 - Internal audit
 - Governance
- Champion of effective public financial management and governance
- Policy voice, research, guidance, briefings
- Professional training, plus updates and workshops
- Advisory services and resources

Our Position Statement on Audit Committees

- Applies to all principal local authorities, audit committees of PCC and chief constable and fire and rescue
- Role and purpose
- Non-executive model reporting to full council or PCC and chief constable
- Defines the core functions of the committee
- Principles for the membership of the committee
- Ways of working

Detailed guidance

- Audit Committees, Practical Guidance for Local Authorities and Police, 2018 edition
- Expands on the Position Statement principles
- Practical steps to ensure an effective structure and operation
- Provides guidance on the core areas of activity
- Guidance on membership
- Formally recommended by Financial Management Code of Practice for Police 2018



Resources to help

- Knowledge and skills framework
 - Core knowledge areas and skills needed by audit committee members
 - More specialist areas of knowledge that add value
 - Assess training needs
- Self-assessment
 - Good practice principles
 - Assessing effectiveness and impact

Good practice questions		Yes	Partly	No
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council?			

Training and development

- In-house delivery
- Open training, regional venues
- Separate events for both local authorities and police audit committees
- Upcoming dates:
 - 11 July London - Introduction to Police Audit Committees
 - 18 September London, 19 September Leeds and 17 October Birmingham - Introduction to Local Authority Audit Committees
 - November – Development Days for Police Audit Committees (London and York)
 - November, December, January - Development Days for Local Authority Audit Committee (London, Birmingham and York)
- See CIPFA Better Governance Forum for details and booking, www.cipfa.org/services/networks/better-governance-forum

New initiative from CIPFA and the Centre for Public Scrutiny

- Short events aimed at Councillors, eg:
 - Understanding your Council's Financial Reporting Requirements
 - Ensuring Good Governance in Decision Making
 - Treasury Management and Investment for Councillors

- Look out for further information!

Helping to keep you up to date with new developments

Audit Committee Update

- Briefing for audit committee members
- 3 issues each year (28 to date)
- CIPFA Better Governance Forum
- [Download issue 25](#), Developing an Effective Annual Governance Statement



Other resources

- Research results and briefings
 - Surveys of local authority and police audit committee chairs in 2016
 - Series of briefings on the results

Comparison of the barriers identified by audit committee chairs

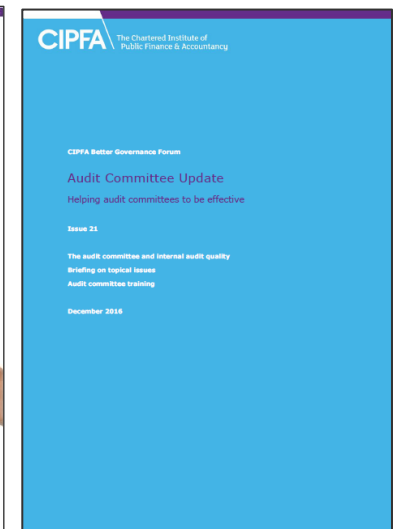
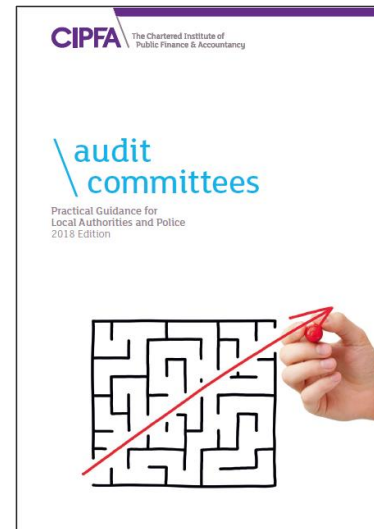


CIPFA's support for audit committees

- Position Statement: audit committees in local authorities and police
- Publication: *Practical guidance for local authorities and police 2018*
- Training and workshops
- Briefings: 28 issues to date of *Audit Committee Update*
- Research: surveys in 2016

- More details:

www.cipfa.org/services/support-for-audit-committees



How can Internal Audit help the Audit Committee to deliver its remit?



Stephanie Donaldson
10 June 2019

INTRODUCTION

- CIPFA NW President
- Chair CIPFA TIS Editorial Board
- CIPFA IA Special Interest Group (SIG) Member
 - CIPFA Statement on Role of the HoIA
- CIPFA Ethics Working Group Member
 - Ethics Survey (2018)
 - SOPP on Ethics (2018)



THE ROLE OF INTERNAL AUDIT

PSIAS – Defines IA as “an **independent, objective** assurance and consulting activity designed to add value and improve an organisation’s operations”

Standard 1000 – Purpose, Authority & Responsibility

The Internal Audit Charter establishes the IA activity’s position within the organisation;

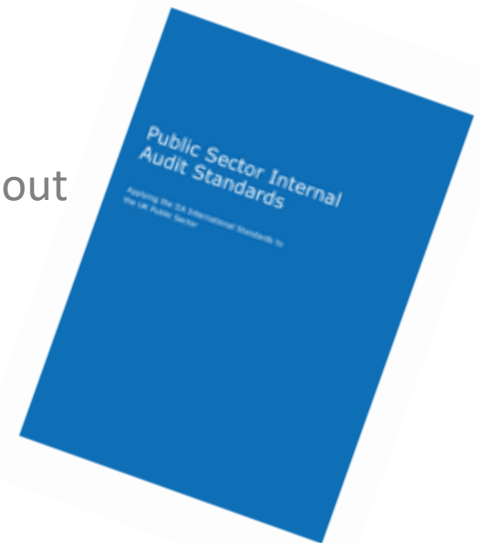
- CAE functional reporting relationship with the Board (Audit Cttee)
- Describes safeguards to limit independence or objectivity

1100/ 1100 – Independence & Objectivity

- “freedom from conditions that threaten the ability.....to carry out IA responsibilities in an **unbiased** manner”
- “threats to independence must be managed”
- “objectivity is an **unbiased** mental attitude”
- “do not subordinate...judgement on audit matters to others”
- “CAE must...have **free and unfettered** access to the Chief

Executive (or equivalent) and Chair of the Audit Committee

NOTE: Internal Audit **may** have other operational responsibility – eg: risk management



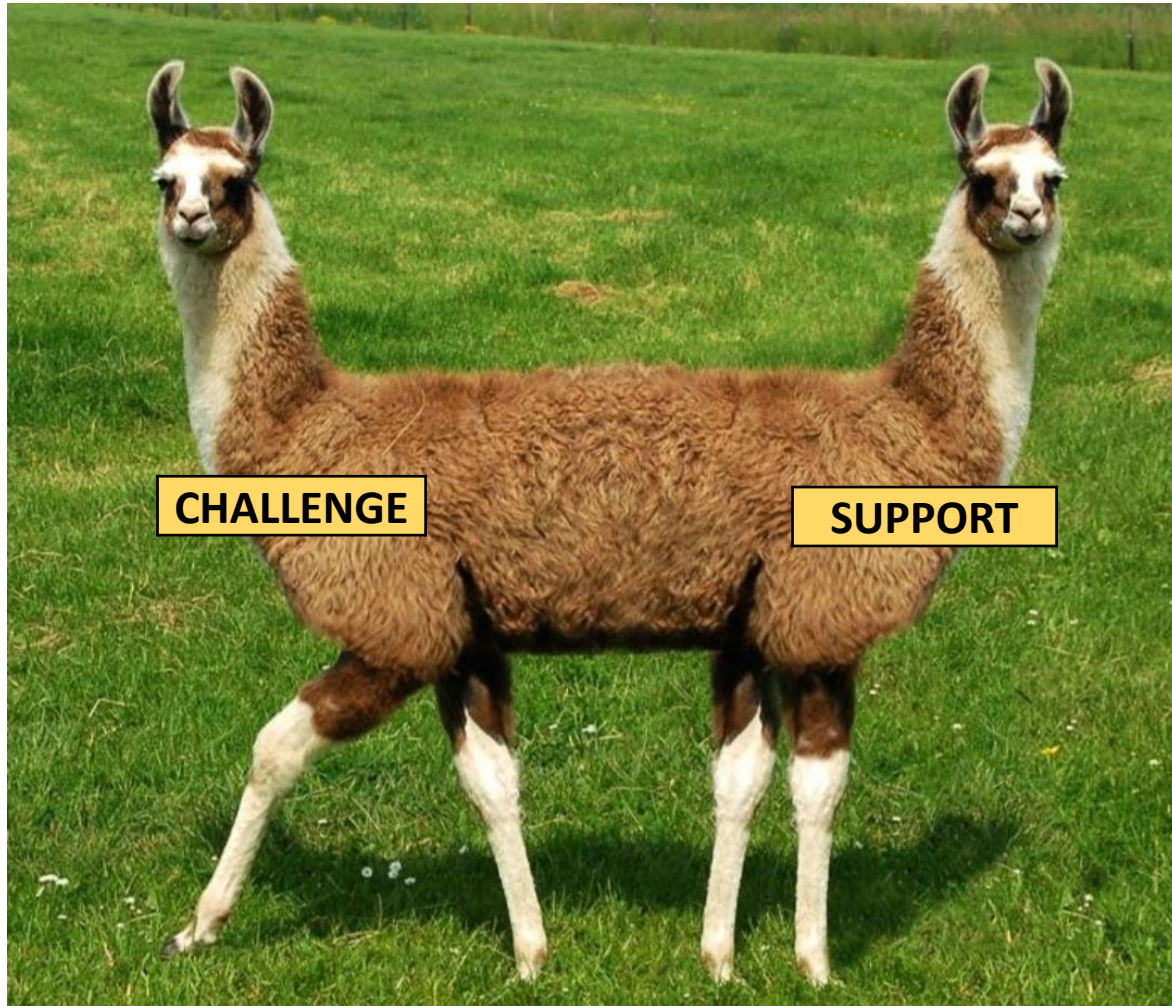
AUDIT COMMITTEE & INTERNAL AUDIT RELATIONSHIP

CIPFA – Audit Committees: Practical Guidance for Local Authorities & Police

- Recognises that audit committees are a **key component of governance**
- **Purpose** of an audit committee - to provide to those charged with governance with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.
- Achieve this, in part from the work of **Internal Audit** including **HoIA Annual Report and Opinion**
- Guidance states that in relation to the internal audit functions the Committee should:
- **oversee its independence, objectivity, performance and professionalism;**
- **support the effectiveness** of the internal audit process; and
- promote the **effective use of internal audit** within the assurance framework



Question: What does an effective relationship between Internal Audit and the Audit Committee look like?



Question: What does an effective relationship between Internal Audit and the Audit Committee look like?



AUDIT COMMITTEE & INTERNAL AUDIT RELATIONSHIP



The principal areas where the committee can influence and add value are:

- promoting the principles of good governance and their application to decision making;
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment;
- supporting arrangements for the governance of risk and for effective arrangements to manage risks;
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
- reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions;
- aiding the achievement of the authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements;
- supporting the development of robust arrangements for ensuring value for money ;
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption ; and
- promoting measures to improve transparency and accountability and effective public reporting to the authority's stakeholders and the local community.

AUDIT COMMITTEE & INTERNAL AUDIT RELATIONSHIP



The principal areas where the committee can influence and add value are:

- promoting the principles of good governance and their application to decision making;
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment;
- supporting arrangements for the governance of risk and for effective arrangements to manage risks;
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
- reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions;
- aiding the achievement of the authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements;
- supporting the development of robust arrangements for ensuring value for money ;
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption ; and
- promoting measures to improve transparency and accountability and effective public reporting to the authority's stakeholders and the local community.

CIPFA Survey of local authority police audit committee chairs in 2016

Where can Internal Audit help?

- Limited knowledge or experience of members
- Committee not considered a priority by other members/PCC and CC
- Intrusion of political interests
- Turnover of members on the committee
- Lack of awareness of good practice
- Lack of resources for training
- Committee members lack interest in audit matters
- Inexperienced chair
- Committee not considered a priority by senior management
- Audit committee is not statutory requirement
- Poor relationships between committee and officers
- Restrictions on the role of co-opted members
- Poor coordination of meetings and agenda papers





Actions...for Internal Audit

1. Regular dialogue between HoIA and Audit Committee Chair
2. Be accessible between meetings / catch-ups
3. Share insight & professional updates





Actions...for Internal Audit

- 4. Support Cttee member development & training
- 5. Work together eg: Agenda planning
- 6. Be open to challengeand expect it!



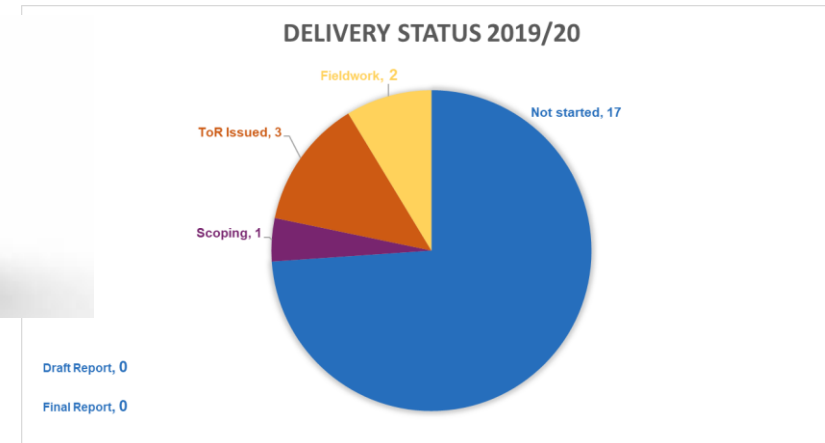
10
TOP

Actions...for Internal Audit

7. Report internal performance

8. Agree *useful* KPI's

9. ...and be prepared to be held to account





Actions...for Internal Audit

Example KPI's for Internal Audit (may be included in QAIP)

CATEGORY	DESCRIPTION	NARRATIVE	HOW IT'S MEASURED	TARGET	Frequency
COMPLIANCE	PSIAS Compliance	Level of compliance with requirements of PSIAS / LGAN ^[1]	PSIAS Annual Self-Assessment External Assessment (5 yearly)	100%	5 Yearly
PRODUCTIVITY	Planned Audit Reviews completed within planned days	Number of audit reviews completed within planned days allocated	Audit time recording / workflow management system	90%	Quarterly
PRODUCTIVITY	Draft Reports Issued	%age of draft reports issued within 2 weeks of "exit interview"	Audit time recording / workflow management system	60%	Quarterly
OUTPUTS	Plan Completion	%age of planned audit reviews completed	Audit time recording / workflow management system	90%	Annual
QUALITY	Client Satisfaction	%age of Post Audit Questionnaires in which management have responded as "Completely Satisfied" or "Satisfied" with quality of audit	Post Audit Questionnaire	90%	Quarterly
ADDED VALUE	Management Perception	%age of positive responses in respect of perceived benefits and value of Internal Audit work	Post Audit Questionnaire & Annual Performance Evaluation Form (Heads of Service)	95%	Annual



Actions...for Internal Audit

10. Remember!

**The Audit Committee Chair
is there if you need them**

CIPFA ETHICS SURVEY & ETHICS WORKING GROUP

CIPFA Ethics Survey of members and other public sector accountants about ethical in Summer 2018

The results found **that 57% of the 487 respondents** said they had been put under pressure or felt under pressure to act in a [professionally unethical way](#).

Of those who felt under pressure, **8%** said they had fully carried out an [unethical action](#), and **28%** had done so partially.

“Top 3” most cited unethical actions were:

1. Supporting excessively optimistic budgets and business cases (179)
2. Dodging policies, standing orders and other regulations (164)
3. Unreasonably downplaying risks (132)

88 respondents said that they had been asked not to disclose material facts in a report

CIPFA ETHICS SURVEY & ETHICS WORKING GROUP

487 RESPONDENTS

- CIPFA 77%
- Qualified 86%
- 70% qualified 10+ years



Sectors:

Local Government **239**

Charity / NfP / Housing **23**

Police / Fire **14**

Other incl Consultants, Commercial **56**

Retired / not working / break **35**

NHS 52 Civil Service / Regulator **41**

FE / HE / Schools **15**

Audit Firm **12**

CIPFA ETHICS SURVEY & ETHICS WORKING GROUP

18 Questions in total

Have you ever been put or felt under **pressure to act unethically**?
How many times?

Who put you under pressure?

What were you asked to do?

Were you offered incentives?

Did you feel **under threat**?

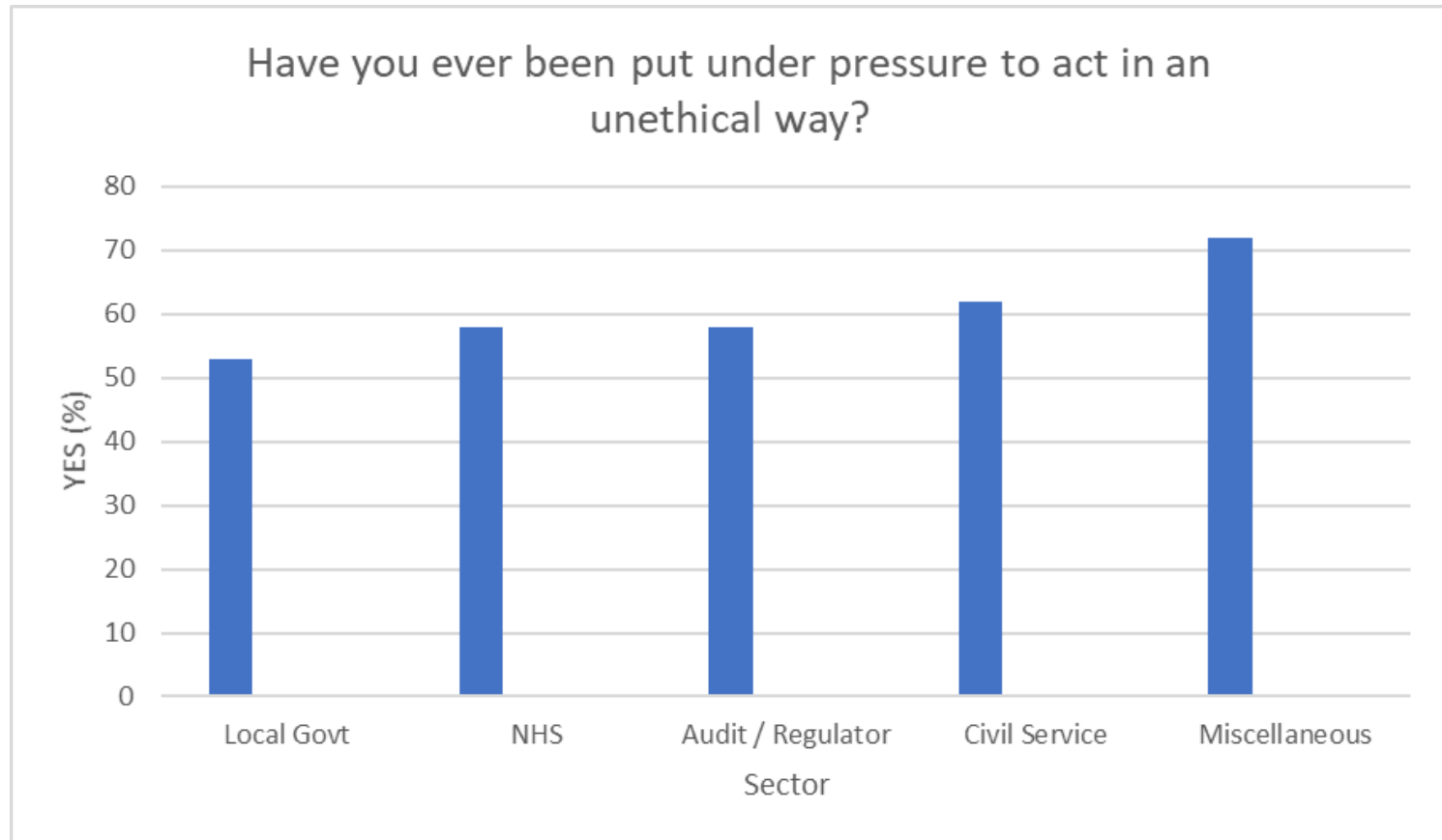
Did you undertake the **unethical task**?

What **consequences** did you experience?

Have you read your Institute's Code of Ethics in last 3 years?



CIPFA ETHICS SURVEY & ETHICS WORKING GROUP



CIPFA ETHICS SURVEY & ETHICS WORKING GROUP

Who put you under pressure?

External / Internal Audit	6	
Regulator	15	
Board / Cabinet / Council	18	
Supplier / Customer	21	
Other (not specified)	47	
Line Manager	129	
CFO / FD/ CEO / Director	144	

CIPFA ETHICS SURVEY & ETHICS WORKING GROUP

36% of the respondents who were put under pressure carried out the task (fully or partially)

64% in NHS

45% in Local Government

38% in Civil Service

9% in Audit / Regulator

CIPFA ETHICS SURVEY & ETHICS WORKING GROUP

CIPFA Winter Internal Audit Update: Ethical Dilemmas faced by Internal Auditors:

- Change what is said within Audit Reports
- Not report to audit committee on findings
- Delay or disregard review of high risks areas
- Limit and change scope of audits
- Pressure influence a special investigation: eg: find evidence to support guilt
- Delay finalisation of reporting to allow recommendations to be actioned so final report looks better
- Keep audit results provisional / draft to avoid wider reporting
- Reduce overall resources disproportionately or threat of reduced resource
- Investigation parked as individuals concerned leaves



And what can the Audit Committee do for Internal Audit?

The principal areas where the committee can influence and add value are:

- promoting the principles of good governance and their application to decision making;
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment;
- supporting arrangements for the governance of risk and for effective arrangements to manage risks;
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
- reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions;
- aiding the achievement of the authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements;
- supporting the development of robust arrangements for ensuring value for money ;
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption ; and
- promoting measures to improve transparency and accountability and effective public reporting to the authority's stakeholders and the local community.

And what can the Audit Committee do to support Internal Audit?

- Be available for regular catch-ups and ad-hoc, when needed
- Challenge management on implementation of audit recommendations
- Request management attendance at Audit Committees to respond to Internal Audit Reports (particularly where assurance has been limited)
- Ask questions!
- Provide input to the Agenda / Forward Plan
- Challenge Internal Audit on their performance / outturn
- Provide direct support where needed – eg: Post Audit Questionnaires / final drafting of reports / plan slippage due to customer failing to engage
- Identify training / knowledge gaps and commit to attending training session / pre-meeting briefings and / or request presentations at Committee meetings to cover specific areas such as;
 - Key Risk Focus discussions
 - Internal Audit Standards
 - Departmental Updates

THANKYOU

Questions?

STEPHANIE DONALDSON
GOVERNMENT INTERNAL AUDIT AGENCY
Stephanie.Donaldson@giaa.gov.uk

Lunch

12:45-13:45

Support from the LGA for Audit Committees

PSAA Local Audit Quality Forum
10 June 2019

Background

- Research by Cardiff Business School for PSAA
 - NAO Report on local authority governance
 - PAC Report on financial sustainability of local authorities
-

Recommendations

Cardiff Business School

“Direct communication and consultation with Audit Committee Chairs (and Committees) should be further developed by PSAA, and they may benefit from further sector wide programmes, ideally involving the LGA, to clarify and underpin their roles.”

NAO

“The Department should work with local authorities and stakeholders to assess ... the effectiveness of audit committees...”

PAC

“The Department should review the way audit committees ... operate in examining and challenging local risks to financial sustainability”

Some other observations

- Audit Committees have often not received the focus or support they deserve and need, either nationally or locally
 - Should be the single most important committee for any council, but not viewed as such
 - As a sector we are 'off the pace'
 - Need to reach outside this room!
 - We have a great opportunity to address these issues!
-

LGA response...

- Very keen to support our members with this development need
 - Want to work with others to provide this support:
 - CIPFA
 - PSAA
 - audit firms?
 - IIA?
 - Audit Committees that are willing to share their experience
-

Some first thoughts

- “*Leadership Essentials*” for Audit Committee members
 - Make some resources available: what good looks like
 - Engagement with Leaders, Chief Executives and Section 151 officers at all councils
 - Facilitate peer challenge and support
 - Develop a ‘peer network’ of more experienced Audit Committee chairs who can give advice to their colleagues
-

Over to you...

1. Do you agree with these suggestions and ideas?
2. What else could the LGA be doing to support you and others?
3. Are you willing to support these developments in any way?

Please get in touch:

tim.watkinson@local.gov.uk

Panel Discussion:

What are the challenges facing Audit Committees and how can they meet them?



National Audit Office

NAO New Code of Audit Practice

Local Audit Quality Forum 10 June 2019

Andrew Kendrick

Approach to developing the Code



Two-stage approach to consultation:

- **Stage 1** involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code. We have published on the NAO website an 'Issues Paper' seeking views on the issues we think are relevant to the next Code, available at: <https://www.nao.org.uk/code-audit-practice/about-code/>

The consultation closed on 31 May 2019

- **To date: 38 respondents:**

Audit firms	Representative LG/NHS bodies (LGA/HFMA/Treasurers' Socs)	PSAA, SAAA
National audit offices	Individual local bodies	
Regulators (eg FRC)	Private individuals	

- **Also engaged with others such as relevant government departments**

Status of this summary



- This summary is intended to provide an initial overview of feedback from the consultation – A formal response will be published in July 2019
- It represents a range of the views expressed
- It does NOT seek to:
 - Represent all views of all respondents
 - Weight any comments more than others
 - Imply that the draft Code will incorporate all suggestions

The Issues Paper: key areas of focus - the Code covers all sectors and is principles-based



We are seeking views on both the current principles-based approach, and on the principles themselves – whether any should be added/removed/emphasised

Also, whether a single Code is appropriate or should it be sector specific?

The Issues Paper: key areas of focus the Code covers all sectors and is principles-based



Feedback to date:

- Supportive of a single code supported by sector specific guidance.
- Support for strengthening principles of:
 - Proportionality, especially in connection with the consideration of objections and exercise of auditors' additional powers.
 - Public accountability and greater emphasis on the auditor acting in the public interest.
 - Professional scepticism and challenge
 - Auditor co-operation

The Issues Paper: key areas of focus – opinion on the financial statements

The current Code requires auditors to comply with relevant international standards on auditing.

We are seeking views on whether you agree the Code should continue to align its requirements with generally accepted auditing standards, or whether there are any particular areas of difficulty.



The Issues Paper: key areas of focus – opinion on the financial statements

Feedback to date:

- **Strongly supportive of the Code remaining aligned to auditing standards.**
- **Views that there is too much focus on areas such as valuations of property, plant and equipment, and pensions, but acceptance the Code is not the place to address these concerns.**
- **Acknowledgement that aligning to auditing standards will allow the Code to adapt to any changes from the on-going reviews of the audit landscape.**



The Issues Paper: key areas of focus - Conclusion on arrangements to secure value for money



We are seeking views on issues including:

- *The key issues that you think the Code and NAO guidance for this area of work will need to be able to address in the coming years*
- *Whether the term “VFM arrangements conclusion” adequately describes the nature of the work undertaken and the conclusion.*
- *Whether the current, risk-based, approach to arrangements work focuses the auditor’s attention in the right areas.*
- *Whether 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.*

The Issues Paper: key areas of focus - Conclusion on arrangements to secure value for money



Feedback to date:

- More focus on key areas of financial sustainability and financial governance but overall scope of auditors' ability should remain.
- Support for changing the description from 'VFM arrangements'
- Widening of approach to consider effective operation of arrangements.
- More freedom to consider emerging issues but which have not yet become 'significant risks'.
- Need for reporting to be timely and for reporting not to be unduly delayed, and include clear recommendations.
- Suggestion that the binary conclusion is replaced with commentary on key areas.
- Suggestion of 'de-coupling' work in this area from the opinion work, potentially reporting to a different timetable.
- More support/guidance on auditors' approach to joint arrangements/partnerships.

The Issues Paper: key areas of focus - Reporting

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.

It is therefore essential that the way this is reported is as effective and transparent as possible and promotes local improvement.

When organisations fail, or encounter significant difficulties, people often ask what the auditors were doing during the period leading up to the failure.

Auditors therefore need to ensure that where they are identifying risks and issues, that they are drawing attention to them promptly and clearly, so that bodies can take appropriate corrective action and the executive can be held to account.

The Issues Paper: key areas of focus - Reporting



We are therefore seeking views on:

- ***Whether the information that is currently reported publicly by auditors helps local taxpayers understand the key issues and hold local bodies to account***
- ***How local reporting could add more value to the audit for local public bodies and taxpayers***
- ***How the results of audit work on economy, efficiency and effectiveness could be reported more effectively and clearly:***
 - ***the options of 'adverse' and 'except for' conclusions***
 - ***the use of the overall criterion.***

The Issues Paper: key areas of focus - Reporting



Feedback to date:

- Auditor reporting needs to have more impact and raise concerns early in language accessible to all.
- Clarify the auditors' remit, the work carried out and the auditor's findings in accessible language.
- Apply 'enhanced' auditor reporting to all sectors.
- More timely reporting so that issues are reported at the right time and explore whether some reporting (eg VFM arrangements) could be brought forward.
- Report on follow up of previous recommendations.
- More commentary regarding the current status of the body and where it is heading, but accepting auditors cannot provide assurance over the future.
- Consider whether there is scope, outside the Code, to develop a public register of the audit position of each body.

The Issues Paper: key areas of focus – auditors' additional powers and duties

The exercise of these powers can be an important tool in raising the profile of significant issues and promoting change but it can also lead to significant additional costs, which are met by local bodies themselves.



We are seeking views on the circumstances in which it may be helpful for the Code to set out clearer expectations of auditors in terms of when their powers might be used

The Issues Paper: key areas of focus – auditors' additional powers and duties

Feedback to date:

- **NAO could set further expectations about when additional powers should be considered (eg when auditors report weaknesses in VFM arrangements), although a range of views exist over how this could be done (Code v guidance).**
- **View that the Code should more explicitly link this area to the principle of proportionality, to ensure any additional costs are appropriate.**
- **Suggestion that auditors should explicitly consider proportionality and whether it is in 'the public interest' when considering objections and/or to exercising additional powers.**
- **Suggestion the Code should set clear expectation that auditors consider and decide objections promptly, and actively communicate with objectors.**



The Issues Paper: key areas of focus – skills and capacity

The NAO has no remit in setting audit fees, but we are conscious that the content of the Code, and any changes made to it may impact on the work auditors need to do, the resources and skills that firms need to deploy on the audit, and potentially the fee required to fund this work.



We are interested in views about how auditors' capability and capacity might need to change to audit the financial statements and undertake their wider work as set out in the consultation.

The Issues Paper: key areas of focus – skills and capacity

Feedback to date:

- The complexity of issues is increasing (such as commercialisation) and auditors will need to ensure they have the skills to enable them to focus more deeply on financial sustainability/governance.
- A recognition that audit teams need to be sufficiently familiar with the legal and regulatory frameworks for the bodies they audit in each sector.



The Issues Paper: key areas of focus – smaller authority engagements

10,000 or so smaller authorities (town/parish councils), auditors undertake a 'limited assurance review', rather than a full audit. The work is done under specified procedures under the NAO's Auditor Guidance Note (AGN 02).



- **Supports the current approach.**
- **'Disproportionate' impact of work on objections in terms of the cost when compared to the size of the authority.**
- **Some 'smaller authorities' are taking on more activities and increasing spending.**

Next Steps

Developing the Code – Stage 2



- **Stage 2** to be undertaken in the second half of 2019: Public consultation on the draft text for the new Code in Autumn 2019.
- The Code to be finalised by end of 2019 and laid in Parliament early in 2020.
- Aim for the new Code to come **into force from 1 April 2020** and would **apply to audits of the 2020-21 financial statements**.

Thank You

Questions?

Andrew.kendrick@nao.org.uk

Event evaluation

Please complete the event evaluation form, and leave on the table at the back of the room or at our reception desk.

Thank you for participation

**Please hand in your badge on
your way out and we wish you
a safe journey home.**