



National Audit Office

Local audit in England
Code of Audit Practice
Issues paper: Consultation response form
Please respond by 31 May 2019

How to respond

1. Please use this consultation response form to respond to the list of questions below.
2. When answering the consultation questions, it would be very helpful if you could also provide additional explanation and detail where appropriate, to understand the basis for your comments.
3. Please do not feel that you need to respond to all the consultation questions set out in this document; we welcome brief or partial responses addressing only those issues where you wish to put forward a view. If there are further observations you would like to make in addition to the questions included in this consultation, however, please feel free to include these in your response.
4. Please email your response to lacg@nao.org.uk
5. You can also post responses to us at Local Audit Code and Guidance Team, National Audit Office, Green 2, 157–197 Buckingham Palace Road, London, SW1W 9SP.
Tel: 020 7798 7842.
6. If you need paper copies of this consultation document or the Code please let us know using the email or correspondence address above, or by calling 020 7798 7842, and provide us with your contact details. We will be happy to post copies to you.

We may draw on your responses when explaining how we have acted on the consultation, or if we need to follow up matters raised with some or all other respondents. Therefore your comments will be regarded as public unless you let us know that they should not be. If so, please let us know when you submit your response whether you consider all or part of your submission to be confidential.

Name: Tony Crawley

Organisation: PSAA

Email address: tony.crawley@psaa.co.uk

Telephone number: 07976 887573

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

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

We are strongly of the view that it should remain principles based. The Code is high level and is supported by detailed points of guidance from NAO, auditing and accounting standard setters. The NAO has the ability to change that guidance quickly, and so retaining a principles based approach is vital to retain that flexibility. If the Code were to be made more prescriptive there would be a heightened risk it would need to be updated within the next 5 years. Changes would therefore be subject to a wait for a legislative slot, likely to be significantly more complicated than amending guidance. There is a balance to be struck between where it is appropriate for the NAO to direct the auditor (eg Whole of Government Accounts work) and the scope for the auditor to act independently. In addition greater prescription limits the ability of the auditor to tailor the audit work to the circumstances of the body. In our view the correct balance is for the Code to remain principles-based. We consider that the guidance carries sufficient weight with auditors and regulators, and so there is not a concern about it being seen as less important. There is scope for the guidance to make clearer what is expected, particularly in relation to the VFM arrangements work.

However, the guidance has a limited profile with audited bodies, and we would be happy to work with the NAO to address this if this would help to reduce the expectation gap between the auditor's role and the body's view of it.

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

It may be helpful to incorporate 'Transparency and public reporting' into a wider principle capturing 'Public accountability'. We think that this would be a useful way to clarify and emphasise that the auditor is working primarily on behalf of the local electors rather than the body. Whilst paragraph 1.7 points out that the auditor is not a substitute for the body's own responsibilities, we note that the NAO felt the need to clarify the auditor's role when reporting in 'Local Auditor Reporting' recognising that it is sometimes misunderstood or misrepresented.

There is much debate currently about the auditor's application of the auditing standards to local government. Whilst there is acceptance that compliance is required, there is much divergence of view in relation to the application of the Code's statement that 'the auditor's work should be risk-based and proportionate' (para 1.10). Clarification of the degree to which the auditor has flexibility in relation to the standards is a debate more for Practice Note 10 (see question 6) and then possibly the Code Guidance rather than the Code. However, it would be useful if the paper responding to this consultation exercise were to emphasise the concept of the auditor's professional responsibilities. We are mindful that this Code revision is taking place at a time of significant debate about the audit profession, including the purpose of the audit itself, and so clarification of the importance of adherence to the auditing standards and the relevant sector guidance would be welcome.

We note that at present the narrative under the principle of professionalism and proportionality describes proportionality in terms of the auditor's application of the standards (para 1.10) and the NAO needing to provide additional guidance in certain circumstances (para 1.12). It would be helpful to raise the profile of the proportionality principle (incorporating risk-based assessment) being applicable across all of auditor's work, for example with respect to VFM arrangements, application of additional duties and reporting.

The principle of 'Co-ordination and integration' could be extended to include 'co-operation'. This would strengthen the encouragement to auditors to maximise efficiency and work together in the increasingly complex sector network of joint arrangements and co-dependency. PSAA's Terms of Appointment incorporate an expectation of co-operation and it would be useful if this were to be replicated in the Code to ensure that firms not contracted to PSAA are under the same obligation in relation to local audit.

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

We suggest that it may be useful to emphasise the overriding principle of auditor integrity, objectivity and independence. Whilst this may be taken as read by auditors, it could be argued that the Code has been written with a level of assumed knowledge about the audit profession and the ethical standards, and it is important for all to be aware. Otherwise we consider that the principles are all important and should be given equal weight.

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

We believe that a single Code is appropriate as the same principles should apply to both local audit sectors. We do not believe that the differences in approach (e.g. reporting of the outcome of the VFM arrangements conclusion work in line with the Local Audit and Accountability Act) merit separate Codes; as now the differences can be dealt within the guidance.

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

The financial statements’ requirements for partnerships and joint arrangements are specified by the accounting standards, so our response focuses on the VFM arrangements work.

We recognise that this can be a complex area. The current Code states that the auditor ‘should consider how best to obtain assurance over such arrangements, working effectively with other auditors where appropriate’, looking to avoid duplication. As noted in our response to Q2 the principle of ‘Co-ordination and integration’ could be extended to ‘co-operation’. This would strengthen the encouragement to auditors to maximise collective efficiency and work together in the increasingly complex sector network of joint arrangements and co-dependency.

Dealing with this area through the Guidance notes is likely to prove more effective and flexible rather than directly addressing it through the Code – other than identifying those situations where effective joint working is expected.

The guidance notes could encourage the auditor to consider the governance structure of significant partnerships, and to have an understanding of the assurance arrangements. This could include clarity on the identity of the ‘lead’ partner within each arrangement, and the extent of work that the lead partner’s auditor plans to carry out over that partnership. There is a risk that the lead partner’s auditor will regard the partnership as not being significant – for example because the level of spend is not material for the lead body. The bodies and the auditors would then need to co-operate to agree the most efficient way for all to obtain the required level of assurance about the partnership’s activity.

Section Two: Audit of the financial statements

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

Yes. Our view is that if local government audit were no longer aligned to the generally accepted auditing standards then there would be significant consequence for the integrity and credibility of the audit opinion and thereby the statements of accounts themselves, especially viewed from the perspective of those outside of the sector.

There is scope within Practice Note 10 to allow for the auditing standards to be interpreted for the sector, but it has a low profile. We understand that PN 10 is due to be revised by the national audit agencies, and would encourage a continuation of the open and constructive consultation process for this Code.

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

The auditing standards are not primarily designed for the public sector and in addition there are areas of local government accounts that are unusual even in the public sector context. The impact of changes in many PPE and pensions figures do not have an immediate impact on the funds available, but those figures are often very large and complex in nature, requiring the auditor to carry out sufficient work to gain appropriate assurance. In local government the work required by auditors to obtain sufficient assurance and meet the audit quality requirements of regulators is greater than that viewed as being appropriate by Treasurers on what are large but low impact figures. In our view this discussion is one that starts with the accounting framework, with reference to the diagram on page 9 of this consultation paper.

We have referred to confusion in relation to proportionality in these areas in our response to question 2. Working on the basis that the answer to question 6 is yes, then the discussion needs to be focused on what is possible to make the audit of these areas simpler or more meaningful/risk assessed. There may be mileage in encouraging auditors to focus their identification of risk more specifically, and focusing their work accordingly. For example, the auditor's description of the significant risk in relation to PPE could focus on aspects such as the complex commercial property investments, and potentially clarify that the valuation of some other property classes is at a lower risk level. This would need discussion with other stakeholders such as the quality regulators, and would also need to acknowledge that all public bodies should be aware of the value of public assets that they are entrusted to steward.

It is also incumbent on auditors to communicate clearly on why they are carrying out particular areas of work, particularly if the body is unclear or thinks it is excessive, and there may be merit in a sector focused paper that sets out the full position, including the views of the audit quality regulators.

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

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

In our view the Code and guidance may be affected or tested **by** the following key issues/developments in the coming years -

- audit profession developments arising from recommendations from recent and current reviews (eg Kingman, CMA, Brydon) – it is likely that whilst local audit is not their primary focus there will be knock-on implications for local audit's framework;
- MHCLG post implementation review of the LAAA 2014, due to report by 2020;
- the recent PAC report on Local Government Governance and Accountability, which refers to MHCLG's Post Implementation Review and the current expectation gap;
- new guidance from key bodies such as CIPFA – for example the proposed Financial Management Code and Financial Resilience Index – will auditors be required to have regard to them?
- potential demand from pressure groups and key stakeholders for the auditor to carry out more assurance work on public sector bodies' arrangements, for example in relation to financial resilience/sustainability;
- financial pressures and changing risk appetite meaning that bodies undertake riskier activities/commercial ventures (noting the NAO's forthcoming work in this area);
- increased complexities in terms of partnerships, including the developments in the NHS relating to the likes of area control totals for Integrated Care Models including the potential for local government bodies to become more directly involved compared to the STP models;
- the potential for increased levels of consolidation of public bodies, e.g. via Local Government Reorganisation;
- appetite for there to be an increased focus on a forward view in audit work and reporting building on the going concern principle and applying it to the VFM arrangements; and
- the potential for financial resilience concerns to increase to the point where individual organisations are no longer viable, and how the auditor reconciles professional standards on reporting in the context of guidance that statements of accounts should continue to be prepared on the going concern basis regardless.

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

We note that although the Code does not refer to ‘the VFM conclusion’, it is a term that has become commonly used as shorthand for the VFM arrangements conclusion. This has led to frequent misunderstanding that the auditor’s role is in relation to arrangements only, and that the role has changed significantly since 2010. The new Code provides an opportunity to re-define the auditor’s role and responsibilities, potentially providing the auditor with more flexibility to respond to the increasingly different approaches being taken by bodies to tackle the on-going challenges that they are facing. This includes consideration of how the auditor should report (see questions 15 & 16).

In our view the Code could be updated to provide greater clarity on the auditor’s remit, and so help to address the expectations gap. This could helpfully include setting out what is NOT within the auditor’s remit – not in the Code itself but in the guidance to allow flexibility should the remit change.

In our response to questions 13 and 14 we have referred to the auditor’s role in relation to governance arrangements being unclear. One option is to redefine the ‘VFM arrangements conclusion’ in terms of governance arrangements – eg renaming it as the ‘governance arrangements conclusion’ or something similar. Arguably the term ‘Value For Money’ is automatically associated with outcomes, and so an arrangements only framework that uses that term in its title may always result in an expectations gap.

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

In theory a risk-based approach should focus the auditor’s attention in the ‘right areas’. However, what constitutes the ‘right areas’ differs depending on whether the risk assessment is driven by engagement risk or by the body’s risks. They may be different, and this is not always clear.

In addition in our view the current Code is being interpreted to mean that only work on significant risks is required or even appropriate – and this means (engagement) risks that may cause the auditor to give the wrong conclusion. In particular paragraph 3.11 can be read in this way, and this contributes to the current expectations gap whereby auditors are delivering on their Code responsibility but there are many calls from bodies for a different approach.

It should be noted that despite perceptions that the quality of and value added by VFM arrangements work has decreased in recent years, the external review scores relating to firms’ work on VFM arrangements have improved steadily. We believe that the relatively narrow range of work done has contributed to that improvement. In short, the auditor’s work in this area has become more narrowly focused, but of a higher quality in terms of compliance with the Code. As a result there is clear evidence that the much talked about expectations gap extends to VFM arrangements work.

Our observation is that if the form of reporting were to move towards a more narrative approach (but with clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on the work undertaken) rather than a single conclusion, using audit specific phraseology, it would facilitate the auditor focusing on the organisation’s risks and be viewed more positively by stakeholders. However, this would need to be discussed with all stakeholders to ensure a common understanding.

Whilst there is a need for an effective assurance framework, it is not necessarily within the role of the auditor to fill all the gaps, and there is often too much emphasis on the auditor’s role. Nevertheless the value that can be added by local audit can make a significant difference. There is a real risk that the current arrangements are not enabling local audit to

have maximum impact at a time when arguably the bodies are under more pressure than ever before.

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

Previous codes have acknowledged that auditors are sometimes best-placed to carry out 'local VFM' work. This is typically work that does not relate to a significant risk in relation to the auditor's responsibilities, but is viewed as of substantial importance to the body. As we have stated in question 10 it is our perception that the auditor's work is currently focused strongly on significant risks only.

We believe that it is worth considering whether the Code should allow auditors to carry out additional work under the Code that is not related to a significant risk, but would nevertheless provide additional assurance about the arrangements in place. Audit work on non-significant risk areas may be appropriate if the body considers that the auditor is best-placed to do it, and the auditor is satisfied that the work is consistent with the auditor's responsibilities and would address a concern and therefore add value.

For clarity, the auditor would not be obligated to carry out any such piece of work because the body wishes it to – the auditor would have to be satisfied that additional audit work under the Code is the most appropriate way forward (ie taking into account independence, capacity, capability and so on). There would also need to be robust arrangements in place to ensure 'those charged with governance' were able to have sufficient oversight. These measures would be to help avoid perceptions that the auditor and the body are circumventing the AGN 01 restrictions on non-audit work. There would need to be a common understanding (TCWG, officers, the auditor) of the fee for the work in relation to a non-significant risk, and consultation with PSAA as it would be highly unlikely to be part of the scale fee and so would need to be a fee variation. There would also need to be appropriately transparent audit reporting of the outcome of the work in line with other areas of Code work. This suggestion is dependent on the new Code's position in relation to risk-based work – if it is decided to retain the focus of the auditor's VFM arrangements work on engagement risk which leads to a single conclusion, then this flexibility would be more difficult to implement.

Clearly the detail of such a proposal would need to be worked through including the fee aspects, and we would be pleased to be involved in any such discussion. The starting point would be the Code's final position on the scope of the VFM arrangements work as this would be the key driver.

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

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

It is important to note that local government leads the way in relation to transparency as audit reports to Those Charged With Governance are routinely in the public domain on websites. This includes the key report that sets out the results of the auditor's work and proposes the audit opinion.

We have considered this question in the context of the range of reporting that local government auditors are both required to do (the opinion, VFM arrangements conclusion and annual audit letter), and are empowered to do (the wider powers), and then the visibility of reporting.

- Required reporting

The actual opinions on the statements of accounts must be worded in line with the auditing standards, and so whilst the auditor can be encouraged to use accessible language there are limits as to how far this can go. To an extent this also applies to the accompanying reports to those charged with governance under ISA 260. However, the use of summary reporting to ensure that the main messages are clear can help accessibility for the taxpayers and thereby accountability.

In contrast the framework for reporting on the VFM arrangements work is within the gift of the sectors' stakeholders. In relation to local government, elsewhere in this response we have suggested consideration of a narrative style of reporting (including judgements and conclusions on the areas reviewed) rather than working to a single conclusion. We believe that this is likely to be more accessible and meaningful to local taxpayers than the current way of reporting.

The Annual Audit Letter (AAL) is a requirement of the Accounts and Audit Regulations 2015. In previous times it carried significant weight, summarising all audit work including national and local VFM reviews, and any specific areas that the auditor was required to report on. Now, however, commonly it has become little more than a slimmed down re-hash of the ISA 260 report to members, and although it seeks to be public facing in its language, it in reality often offers very limited added value. This is particularly so in local government given the transparency of the ISA 260 report as the matters set out in the AAL are already in the public domain (unlike in the NHS). In our view the value of the AAL is inherently linked to the scope of the auditor's remit (determined by the new Code) and extent of work at each individual body (determined by the auditor's risk assessment in response to the Code). As a result we consider that the form of the AAL should follow on from the decisions about the new Code's requirements. However, we think it would be useful if the Code were to allow the auditor where appropriate largely to combine the AAL into the ISA 260 report, for example by making the summary report equate to the AAL (updated to confirm the outcome of the audit). We acknowledge that this would need to be discussed with stakeholders, but we strongly believe that the current situation is not working.

- Optional reporting

Local government auditors have additional reporting powers, including responding to challenge from local and other taxpayers. This includes objections, and we are carrying out an analysis of their outcomes. In headline terms, 1 out of 150 objections since 2015 has resulted in a public interest report, although others have resulted in non-statutory recommendations and other measures to improve the arrangements in place. There may be merit in a wider discussion about the framework for elector rights, but this is outside of the Code consultation.

Statutory recommendations typically receive significant local coverage. By definition these are related to issues that the auditor considers to be key and an important part of helping taxpayers hold the body to account as the body must respond. However, although they are increasingly used, they are still relatively rare, and the accountability framework

for non-statutory recommendations or for other findings (e.g. qualified VFM arrangements conclusion) is less clear. The Code and/or guidance could make it clear that all audit recommendations are to be followed up and the status reported on prominently in an open, transparent and informative way.

- Visibility of reporting

Whilst local government makes audit reports available, it is not always easy to find audit reports on bodies' websites. There may be merit in developing a public register of the audit position at each body, linking into existing websites where relevant (eg we publish information such as scale fees and AALs, but only for opted-in bodies).

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

The nature and extent of local reporting is inherently linked to the auditor's Code responsibilities. We have commented within this response that currently the Code is delivering a narrow level of VFM arrangements work, and that there are options that would allow the auditor to report more widely, and beyond purely the significant risks – both of which we believe would add more value for the bodies and taxpayers. We believe that this could help address the audit expectations gap highlighted by the recent PAC report on local government governance and accountability. We have also commented that the current measurement and focus of the VFM arrangements conclusion is not well understood.

The timeliness of auditor reporting is also a matter worthy of discussion in terms of adding value. Local government bodies' audit opinions are very rarely qualified. It has become custom and practice for auditors to continue to work on accounts that have a material issue until that issue has been resolved, enabling in the main a clean opinion to be given. In some cases this takes several years to achieve. One clear advantage of this approach is that there is no knock-on impact on the following year's/years' statements, whereas an earlier qualified opinion would often have knock-on implications. However, there is an argument that earlier qualification (with clear explanation of the situation) is more informative than an audit continuing over years. The Code could encourage timely reporting (wherever possible by 31 July target date) with the Guidance notes setting out the NAO's expectations where there are unresolved issues (eg accounting/legal/police investigations matters). If this suggestion is pursued then dialogue with the key stakeholders would be essential to ensure that there is a common understanding.

We understand that there has been some discussion of interim audit stage reporting. At present auditors report if matters have come to their attention during the interim audit, but this is not common in practice. Requiring interim reporting would be likely to require additional audit time and therefore fee, and we are not clear that this would be best use of any additional audit resource. We are also unclear about how the timing would work in relation to the bodies' budget preparation process.

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

An advantage of assessing against the single statement is that in theory it requires auditors to take a holistic view, whereas specifying areas for review risks important areas being omitted. However, when set in the context of paragraph 3.11 the auditor considers the significance of potential risks against that criterion – which is therefore setting a high benchmark. In our view there is a case for increasing the formality of the auditor's consideration of the governance arrangements in place – the auditor's current role in relation to reporting on them needs clarification.

We note that the Audit Scotland Code of Audit Practice sets four dimensions for the auditor to consider throughout their work, leading to a requirement that...

'All annual audit reports should include a summary on each dimension that states any work done in the year by the appointed auditor and the assurances, risks and any good practice that they have identified. A simple description of the arrangements in place is not sufficient. Appointed auditors should provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on any work that they have done. If there are still significant risks, appointed auditors should make recommendations for improvement.'

We are aware that there are significant differences between the English and Scottish frameworks. Nevertheless we believe that the concept of requiring the auditor to set out the work done and to provide judgements and conclusions on key areas could be translated into the English framework, including potentially setting specific areas for the auditor to consider for review (building on the current planning guidance). As mentioned elsewhere, proportionality would be a key consideration.

We note that in 2017/18 it was clarified that when the auditor reports on the Annual Governance Statement there is no requirement for any reference to consideration of the CIPFA/SOLACE framework. In our view there is a consequent need for the Code to clarify the status of that framework and the various other governance codes in terms of the auditor's responsibilities. Governance arrangements are particularly important in times of financial and/or operational pressure, and so arguably never more so than now and over the coming years in local government. It is therefore very important that the auditor's role is clear.

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

At present auditors provide a conclusion that is either 'unqualified', 'except for' or 'adverse'. In our view it is not clear that an unqualified conclusion equates to being satisfied that only 'adequate' arrangements exist (as illustrated in the wording of question 14), and so can lead to a false level of assurance being taken. The use of audit phraseology also drives behaviours of the auditor, eg focusing on engagement rather than business risk.

The distinction between except for and adverse is rightly an auditor judgement, but the mechanics of how that judgement is reached across the sector is not transparent. There are a number of options. For example, it is arguable that in the current and expected future circumstances many bodies need to have arrangements that are better than adequate, and that the achievement of an unqualified VFM arrangements conclusion should equate to 'good' rather than 'adequate'. However, this would require 'good' to be defined, and even then the challenge of ensuring consistency would be significant. A further option would be to move away from a conclusion, but instead require auditors to provide more of a narrative position statement with '*clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on any work that they have done*' as referred to in question 14.

There appears to be a particular perception issue in relation to 'except for' conclusions that are driven by reports by others, for example OFSTED. Quite rightly auditors are required to take into account the unsatisfactory results of inspections, particularly those that relate to key areas of service expenditure such as Children's services. There is therefore a logic in the auditor's resulting except for conclusion, although noting that some perceive it to be double jeopardy given the public nature of Inspectorate reporting, especially as the auditor does not play any part in the inspection. In addition there is often more than a year's gap before any re-inspection of the service is reported on, and so in the following year it is common for the auditor to maintain the except for conclusion. These factors have led to a tendency to see except for conclusions that relate to inspectorate reports as less important as it adds nothing to the public's knowledge. We suggest that an option would be for the auditor's VFM arrangements reporting to refer to the results of the inspectorate report, but then to state that the matter is outside of the auditor's scope and then report on their findings on the rest of the body's arrangements.

Whatever the final position re the auditor's responsibilities, we think it would be helpful if the Code were to require auditors to provide a clear description to those charged with governance of the work they have undertaken. Effectively this would extend the core principles of ISA 260 to this area of the Code.

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

Auditors used to provide a graded assessment of the VFM arrangements, using a detailed framework of criteria. The grades were unsatisfactory (1), fair/adequate (2), good (3), excellent (4). Whilst this initially had some merit in providing a tangible way forward for those at a lower level and an easy to understand headline message, it became counter-productive as evidencing compliance with the criteria often became the driver for action rather than tackling the areas that really mattered to the individual body's circumstances. In addition much officer and auditor time was spent discussing the results, particularly for marginal cases. A large amount of work was also required to manage the underlying framework.

It was replaced with a requirement that auditors should determine if proper processes were in place for arrangements to secure economy, efficiency and effectiveness. This change was part of a wider desire for more autonomy for the sector, with auditors now carrying out an assessment that equates to the level of 'adequate' under the previous graded system and stopping at that point. However, there is currently a widespread commentary suggesting a desire for the auditor's role in the assessment of VFM arrangements to be made more impactful, particularly in relation to financial resilience, possibly linked to financial governance and leadership. This is effectively building on the going concern principle and extending it to a forward-looking aspect of the VFM arrangements. Whilst the NAO has clarified that the auditor is not there to inform bodies of new issues, there could be significant value added if the auditor reported their findings and views on the current arrangements for dealing with future challenges without having to come to a single conclusion. For example, we consider that there is merit in the Code emphasising the need for auditors to consider the risk maturity of the body, an important element of the future-focused arrangements to ensure that risks are being identified and managed. This would include considering whether risk management arrangements have developed sufficiently where the body has changed its approach to the likes of commercialism or income generation. Something akin to the viability statements (as used in the Corporate Sector) may be a helpful addition to the reporting suite, but may be outside the remit of this consultation.

The potential cost of any extension of the auditor's role must be acknowledged, along with the willingness of auditors to engage with such a remit particularly if there is perceived to be more of a forward looking aspect. As noted elsewhere in our response such a change in the reporting framework would need careful planning and discussion with all stakeholders to ensure a common understanding. It would also need to be recognised that bodies are working with imperfect information which poses barriers to effective forward planning.

Section Five: The auditor's additional powers and duties

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

The auditor's additional powers are vital elements of public audit, and the local elector elements that apply uniquely to local government are a key part of the accountability framework. Given that these powers are set in legislation and the auditor must consider their use, we consider that there is a risk that adding to the legislation in the Code could be perceived as undue pressure on the auditor's independence. However, we consider that there is scope for the NAO to provide further practical guidance on the application of the powers to help auditors make their judgements. This could include specific guidance for cases where the body does not take satisfactory action in response to the auditor's reports.

For example, we are aware of concerns about the extent of the auditor's use of additional powers, in particular the issuing of Public Interest Reports (PIRs). We also note that recently a number of auditors have issued statutory recommendations within reports. Our understanding is that auditors perceive that this enables their reports to be issued more quickly than if they chose the Public Interest Report route. Whilst bodies are not obliged to publish the report that accompanies Statutory Recommendations it is generally considered that it would be untenable not to publish due to the transparency agenda, and indeed auditors do not appear to consider that this is a significant issue. We suggest that there is merit in a discussion about whether the use of statutory recommendations instead of PIRs is a matter of concern or not. This discussion could also include whether the perception that PIRs are inevitably lengthy and require a longer lead time to issue is correct – for example could shorter PIRs be used more?

We consider that guidance may be appropriate in relation to timescales for deciding each stage of objections. In line with above, we do not think that the Code itself is the right place for timescale targets given that audit independence is a key principle when exercising additional powers.

Section Six: Smaller authority assurance engagements

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

Yes – setting the specified procedures within Guidance (AGN02) provides flexibility to amend requirements as needed and react to changes in the applicable statutory regulations and the proper practices as issued by the Joint Panel on Accountability and Governance (JPAG).

The procedures set out are 'Basic' and 'Intermediate' with 'Intermediate' procedures being applied to organisations with expenditure greater than £200,000.

Around 1.5% of Smaller Authorities have expenditure in excess of £1,000,000. Public assurance may be better served by conducting additional procedures at these 'larger' Smaller Authorities. They do have the option of opting for a full audit.

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

Yes – the general approach of not undertaking VFM arrangements work and only reporting on this on an exception basis when matters come to the attention of the auditor is appropriate. However as with Question 18 there may be some merit in extending the requirements for larger authorities, but this will need to be balanced with cost.

Section Seven: Potential implications of changes to the Code

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

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

We are very much aware of the existing challenge of achieving local audit supply sustainability, as highlighted in the Cardiff Business School report that is available on our website, and by various commentators, notably CIPFA President Sarah Howard. Local government is a sector that requires specialist knowledge. The earlier audit deadline target of 31 July has undoubtedly played a significant role in increasing the pressure on audit capacity. We are seeing clear indications that auditors are finding it more difficult to achieve both quality and timeliness targets in relation to local government. Whilst the timeliness target is an Accounts and Audit Regulations matter, the quality of the audit very clearly is a matter for the Code. Auditors are professionally bound to prioritise the quality of the audit and only issue their opinion (and other reporting responsibilities) when they have appropriate assurance. This means that timeliness is sacrificed if there is a choice that has to be made (the ideal of course is that there is no such choice to make). We are engaging with other stakeholders to review the sustainability of local audit supply. If the Code were to emphasise the need for timely reporting it may help to highlight the need for the sustainability issue to be fully understood and addressed.

The consultation paper has raised possibilities that would expand the auditor's remit. This could potentially increase the pressure on the existing local audit teams. It is important to recognise that it is likely any increase in the capacity and/or capability needed to deliver the Code audit will require additional audit fee, and so it may incentivise firms to invest in those teams to learn new skills, or to train specialists to learn how to apply their knowledge to a local government context. Clearly the nature and timing of any additional work would be a key element of that evaluation. For example, any additional requirements in the June-July period (e.g. bringing in long-form audit reporting) will exacerbate the current challenge of resourcing the final accounts visits.

If the auditor's remit is to be expanded we consider that it is essential that there is appropriate dialogue with the audit firms to ensure that they will be able to deliver it. Additionally, in line with our answer to question 2, we consider that the impact of any additional responsibilities should allow for proportionality, including recognition of the range of approaches that bodies have adopted by enabling auditors to assess the appropriate level of work needed based on individual circumstances.

General Comments

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

We think that a key question is ‘On whose behalf is an audit carried out?’ and that the answer has become blurred. To help address this, we consider that the Code would benefit from a clear statement about the needs and interests of the various principal stakeholders and users of local government audits. This would help set the context for other aspects of the Code such as audit scope and reporting. In line with our view that the Code should remain principles based, we consider that it could set this out at a high level, with the guidance notes providing an up-to-date context (eg tracking changes in responsibilities such as Departmental or Inspectorate changes in remit). The description of the stakeholders’ needs and interests would also be a reference point when shaping the new Code, and responding to the consultation responses – including elements of our answers.