

# **PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies**

## **Introduction to statement**

1. This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas.
2. The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 (the Act) and from the Code of Audit Practice (the Code) issued by the NAO on behalf of the Comptroller and Auditor General.
3. The NAO has the power to issue guidance to auditors under Schedule 6 paragraph 9 of the Act. Auditor Guidance Notes (AGNs) set out guidance to which local auditors must have regard under Section 20(6) of the Act.
4. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence, the role of the appointed auditor does not include providing financial or legal advice or consultancy services to the audited body.
5. Auditors may wish to refer to this statement in audit planning documents, annual audit letters, reports and other audit outputs.

## **Introduction to responsibilities**

6. Those responsible for the conduct of public business and for spending public money are required to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
7. In discharging these responsibilities, public bodies must put in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual published governance statement.
8. In carrying out their work auditors will:
  - plan and manage the audits in a timely, professional and efficient manner;
  - plan to complete work within agreed deadlines;
  - maintain close liaison with the audited body; and
  - provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.
9. In meeting their responsibilities, auditors obtain representations from management, both orally and in writing, on specific aspects of the audit.

## Responsibilities in relation to the financial statements

10. The responsibility of the audited body in relation to the financial statements are to:
  - put in place, and review the effectiveness of, a system of internal control, including arrangements to ensure the regularity and lawfulness of transactions;
  - maintain proper accounting records;
  - prepare financial statements that give a true and fair view of the financial position of the body and its expenditure and income and that are in accordance with applicable laws, regulations and accounting policies; and
  - prepare and publish with its financial statements a governance statement.
11. Certain specified bodies also prepare a whole of government accounts return, or a narrative statement by the authority on their financial performance and value for money outcomes over the year, in accordance with proper practices in relation to accounts, alongside the financial statements.
12. A local authority that is the administering authority for a local authority pension fund must prepare pension fund financial statements and an annual report on the pension fund for each financial year. These financial statements must give a true and fair view of:
  - the financial transactions of its pension fund during the year; and
  - the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.
13. In preparing their financial statements, local authorities are responsible for:
  - preparing realistic plans that include clear targets and achievable timetables for the production of the financial statements;
  - assigning responsibilities clearly to staff with the appropriate expertise and experience;
  - providing necessary resources to enable delivery of the plan;
  - maintaining adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements;
  - ensuring that senior management monitors, supervises and reviews work to meet agreed standards and deadlines; and
  - ensuring that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor.
14. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor is unable to meet the planned audit timetable and the start date of the audit will be delayed.

15. The audit scale fee is calculated on the basis that the draft financial statements, and detailed working papers, are provided to an agreed timetable and are of an acceptable standard. If information is not provided to this timetable, or is provided to an unacceptable standard, the auditor will incur additional costs in carrying out any extra work that is necessary. These additional costs are borne by the audited body.
16. In carrying out their responsibilities in relation to the financial statements auditors should comply with auditing standards as well as other relevant guidance issued by the Financial Reporting Council, and the NAO on behalf of the Comptroller and Auditor General.
17. Auditors provide an opinion on whether the audited body's financial statements:
  - give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
  - have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.
18. Auditors plan and perform their audit in compliance with the requirements of the Code and with relevant professional standards issued by the Financial Reporting Council and relevant quality control standards. The auditor's work is risk-based and proportionate and is designed to meet the auditor's statutory responsibilities, applying the auditor's professional judgement to tailor their work to the circumstances in place at the audited body and the audit risks to which they give rise. The auditor conducts their work economically, efficiently and effectively, and in as timely a way as possible.
19. Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the annual accounts. In carrying out their work, the auditors exercise professional scepticism. They obtain and document such information and explanations as they consider necessary to provide sufficient, appropriate evidence in support of their judgements.
20. Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the annual accounts. However, they do not provide assurance to audited bodies on the operational effectiveness of specific systems and controls or their wider system of internal control. Where auditors identify any weaknesses in such systems and controls, they draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.
21. Auditors review whether the governance statement has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so, auditors take into account the knowledge of the audited body gained through their work in relation to the annual accounts and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources.

22. Auditors are not required to consider whether the governance statement covers all risks and controls, nor are auditors required to express a formal opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.
23. Auditors are also mindful of the activities of inspectorates and other bodies and take account of them where relevant to prevent duplication and ensure that the demands on audited bodies are managed effectively. In so doing, the auditor is not required to carry out procedures to assess the quality of, or re-perform, the work of inspectorates and other bodies, except where it would be unreasonable not to do so, for example, to provide assurance in accordance with auditing standards issued by the Financial Reporting Council in support of the audit opinion on the financial statements.
24. Auditors also review for consistency other information that is published by the audited body alongside financial statements, such as an annual report. If auditors have concerns about the consistency of any such information they will report them to those charged with governance.
25. At the conclusion of the audit of the accounts, auditors give their opinion on the following matters:
- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question;
  - whether the financial statements have been prepared properly in accordance with relevant legislation and applicable accounting standards;
  - for specified bodies, whether the whole of government accounts return has been properly prepared; and
  - for administering authorities of a local authority pension fund, a separate opinion on the pension fund accounts within their report on the financial statements and a separate opinion on the financial statements contained in the pension fund annual report.

### **Electronic publication of the financial statements**

26. Where the audited body publishes its financial statements electronically, it is responsible for ensuring that the publication presents accurately financial statements and the auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods. Similarly, where the audited body wishes to distribute electronic copies of the financial statements, and the auditor's report on those financial statements, to its stakeholders, it is responsible for ensuring that these are presented accurately.
27. The auditor's report on the financial statements should not be reproduced or referred to electronically without the auditor's prior written agreement. This enables the auditor to review the process by which the financial statements to be published electronically are derived from the financial information contained in the authenticated financial statements, check that the proposed electronic version is identical in content with the authenticated financial statements and check that the conversion of the authenticated financial statements into an electronic format has not distorted the overall presentation of the financial information.

28. The examination of the controls over the electronic publication of audited financial statements is beyond the scope of auditors' responsibilities in relation to the financial statements and the auditor cannot be held responsible for changes made to audited information after the initial publication of the financial statements and the auditor's report.

**Responsibilities for local authorities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources**

29. It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Local public bodies are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives whilst safeguarding and securing value for money from the public funds at their disposal.
30. The audited body is responsible for reporting on these arrangements as part of its annual governance statement.
31. The NAO have issued AGN03 Auditors work on value for money arrangements which auditors must have regard to in undertaking their work in determining the adequacy of the arrangements for securing VFM that an organisation has put in place. Nothing in this statement is intended to extend or limit the application of this guidance.
32. Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In carrying out this work, the auditor is not required to satisfy themselves as to whether or not the audited body has actually achieved value for money during the reporting period.
33. In planning this work, auditors consider and assess the significant risks of giving a wrong conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors should discuss their assessment of these risks with the audited body.
34. The auditor will take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach the wrong conclusion on the audited body's arrangements.
35. In assessing risks auditors have regard to:
- the audited body's annual governance statement and any additional reporting by the body on the arrangements it has in place to manage risks to the achievement of value for money through the economic, efficient and effective use of its resources;
  - evidence that the audited body's arrangements were in place during the reporting period;

- evidence obtained from the auditor's other work – including previous value for money work and work completed as part of the audit of the financial statements, and the audited body's response to this work;
  - the work of third parties, where the results are relevant to the auditor's value for money responsibilities. The auditor is not required to quality assure or re-perform the work of others and should rely on such work to the extent that, in their judgement, it is appropriate to do so; and
  - any other evidence source that the auditor regards as necessary to facilitate the performance of their statutory duties.
36. In reviewing the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors must avoid giving any perception that they have any role in the decision-making arrangements of the audited body.
37. Auditors do not provide assurance to audited bodies on the operational effectiveness of specific aspects of their arrangements. Neither can they be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.
38. Audit work in relation to the audited body's arrangements to ensure that it promotes and demonstrates the principles and values of good governance does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they are alert to the possibility and act promptly if grounds for suspicion come to their notice.
39. At the conclusion of the audit, auditors provide a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant financial year.

### **Specific powers and duties of auditors**

40. Auditors have specific powers and duties under the Act in relation to matters of legality.
41. Auditors undertake the following in relation to these duties:
- consider whether to issue a public interest report concerning any matter that comes to the auditor's attention during the course of the audit, which they judge should be considered by the audited body or brought to public attention (Schedule 7 of the Act);
  - give electors the opportunity to raise questions about a local authority's accounts, and consider and decide upon objections received from electors in relation to the accounts (sections 26 and 27 of the Act);

- consider whether the audited body should consider formally, and respond to in public, recommendations made in an audit report (Schedule 7 of the Act);
  - to issue an advisory notice or to apply to the court for a declaration that an item of account is unlawful (sections 28 and 29 of the Act), if they have reason to believe that unlawful expenditure has been or is about to be incurred by an audited body; and
  - apply for judicial review with respect to a decision of an audited body or a failure of an audited body to act, which it is reasonable to believe would have an effect on the accounts of that body (section 31 of the Act).
42. Fees arising in connection with auditors' exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors, are borne by the audited body.

### **Reporting the results of audit work**

43. Auditors provide the following:
- audit planning documents;
  - oral and/or written reports or memoranda to officers and, where appropriate, directors on the results of, or matters arising from, specific aspects of auditors' work;
  - a report to those charged with governance, normally submitted to the audit committee, summarising the work of the auditor;
  - an audit report, including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
  - a certificate that the audit of the accounts has been completed in accordance with statutory requirements; and
  - an annual audit letter addressed to the audited body, which is based on the report to those charged with governance.
44. Audit reports are addressed to officers or members of the audited body, as appropriate. Auditors do not have responsibilities to officers or directors in their individual capacities or to third parties that choose to place reliance upon the reports from auditors.
45. Outputs arising from the exercise of specific powers and duties of an auditor, the need for which may arise at any point during the audit process, are issued when appropriate.
46. Matters raised by auditors are drawn from those that come to their attention during the audit. The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors' recommendations for their wider implications before deciding how to implement them.

## **Ad hoc requests for auditors' views**

47. There may be occasions when audited bodies seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors are as helpful as possible, but are precluded from giving a definite view in any case because auditors:
- must not prejudice their independence by being involved in the decision-making processes of the audited body;
  - are not financial or legal advisers to the audited body; and
  - may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.
48. In response to such requests, auditors can offer only an indication as to whether anything in the information available to them at the time of forming a view could cause them to consider exercising the specific powers conferred upon them by statute. Any response from auditors should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by auditors or others entitled to raise objection to it. It is the responsibility of the audited body to decide whether to embark on any action or transaction.

## **Access to information, data security and confidentiality**

49. Auditors have wide-ranging rights of access to documents and information in relation to the audit. Such rights apply not only to documents and information held by the audited body and its directors and staff, including documents held in electronic form, but also to the audited body's partners and contractors, whether in the public, private or third sectors. Auditors may also require a person holding or accountable for any relevant document to give them such information and explanation as they consider necessary.
50. There are restrictions on the disclosure of information obtained in the course of the audit, subject only to specific exemptions. The Freedom of Information Act 2000 does not apply to appointed auditors, as they have not been designated as public authorities for the purposes of that legislation, although they are subject to the Environmental Information Regulations 2004. Audited bodies wishing to disclose information obtained from an auditor, which is subject to a statutory restriction on its disclosure, must consider Schedule 11 of the Act and seek the auditor's consent to that disclosure.
51. Auditors protect the integrity of data relating to audited bodies and individuals either received or obtained during the audit. They ensure that data are held securely and that all reasonable steps are taken to ensure compliance with statutory and other requirements relating to the collection, holding and disclosure of information.