

**GOVERNANCE AND AUDIT COMMITTEE**  
**29 MARCH 2010**

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**EXTERNAL AUDIT CODE OF PRACTICE AND RESPONSIBILITIES**  
**Audit Commission**

**1 PURPOSE OF DECISION**

- 1.1 To inform the Governance and Audit Committee of the latest code of audit practice and statement of responsibilities.
- 1.2 The Audit Commission has recently published an update to the Code of Audit Practice (the Code) which defines the scope, nature and extent of local audit work and the associated Statements of Responsibilities of Auditors and Audited Bodies which support the Code. Both documents are attached to this report.

**2 Background**

- 2.1 The Commission has a statutory duty to prepare, and keep under review, code of audit practice prescribing the way in which auditors must carry out their functions under the Audit Commission Act 1998 (the Act). The Code must embody what appears to the Commission to be the best professional practice with respect to the standards, procedures and techniques to be adopted by auditors.
- 2.2 The Code has to be approved by both Houses of Parliament at five yearly intervals and auditors have a statutory duty to comply with it.
- 2.3 Parliament approved the current Code on 9 March 2010. There are only minimal changes to the Code which will come into effect immediately.
- 2.4 In preparing the Code, the Commission consults widely, engaging key organisations that represent audited bodies in local government and the NHS, the accountancy profession and the public audit agencies at each stage.

**3 SUPPORTING INFORMATION**

**Code of Audit Practice**

- 3.1 In developing the current Code, the Commission's principal aims were to bring about a more streamlined, risk based approach to audit, targeted to areas where auditors have the most to contribute to improvement, together with a stronger emphasis on value for money and clearer reporting of audit results. Specifically, it requires auditors to give a positive conclusion on audited bodies' arrangements to secure value for money, by reference to criteria specified by the Commission. This work focuses on the audited body's corporate performance and financial management arrangements.

- 3.2 The Code is a high level document, which focus on the Audit Commission's core requirements and aspects of audit specific to its regime.

The Code:

- sets out the general principles to be followed by auditors in delivering their objectives;
  - outlines their responsibilities regarding the audit of financial statements and use of resources; and
  - sets out the range of outputs through which the results of audit are reported.
- 3.3 Auditors are required by the Code to report their conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources (VFM conclusion). The Commission issues criteria to assist auditors in arriving at their VFM conclusion and the relevant criteria for different types of audited body can be viewed on the web using the following address [www.audit-commission.gov.uk/localgov/audit/UoR/approach/Pages/Default.aspx](http://www.audit-commission.gov.uk/localgov/audit/UoR/approach/Pages/Default.aspx)
- 3.4 The Code also outlines how auditors should fulfil statutory functions outlined in the Act. These functions are:
1. to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts
  2. to apply to the court for a declaration that an item of account is contrary to law
  3. to consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review

### **Statements of Responsibilities**

- 3.5 The 'Statements of Responsibilities of Auditors and Audited Bodies' assist auditors and audited bodies by summarising where - in the context of the usual conduct of an audit - 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.

## **6 Audit reporting**

- 6.1 The Commission has published a leaflet to inform those bodies audited under the Code of Audit Practice 2005 about the changes to audit reporting introduced by the new Code (attached to this report).
- 6.2 The results of audit work are communicated in a range of reports:
- the audit planning document - which sets out how auditors intend to carry out their responsibilities, in the light of their assessment of risks, and which will be kept under review and updated as necessary
  - oral and/or written reports or memoranda to officers and, where appropriate, members, on the results of, or matters arising from, specific aspects of auditors' work - which should be prepared and issued or delivered as soon as possible after completion of the work
  - a report to those charged with governance summarising the conclusions of the auditor - which should cover the full range of auditors' responsibilities under statute and the Code. In accordance with professional standards, this report has

to be issued before the auditor finalises, and issues, his or her opinion on the financial statements

- an audit report, including the auditor's opinion on the financial statements and a conclusion about whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. For those local government bodies that are best value authorities this conclusion incorporates the auditor's report on the audit of the Best Value Performance Plan
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements
- an annual audit letter - which should communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from auditors' work that they consider should be brought to the attention of the audited body. It should highlight the key issues drawn from the report to those charged with governance and auditors' conclusions on relevant aspects of the audit. It should be prepared in clear language that is concise and accessible to a wide audience.

6.3 Other reports may be issued at any point during the audit process, where appropriate:

- section 8 of the Act requires auditors to consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public;
- under Section 11(3) of the Act auditors of local government bodies may make written recommendations that need to be considered and responded to publicly. Where the auditor considers it necessary to make such recommendations, these can be included, where relevant, within other written outputs from the audit or they may be the subject of a specific report to the audited body; and
- from time to time, auditors may be required to report information to the Commission in a specified format to enable it to carry out any of its other functions, including assessments of performance at relevant bodies, or to assist bodies such as the Healthcare Commission, the Commission for Social Care Inspection and the National Audit Office in carrying out their functions.