

Code of Audit Practice 2006



**In relation to the functions of Local
Government Auditors in their audit of
Local Government Bodies in Northern
Ireland - March 2006**

Laid before the Northern Ireland Assembly
under Article 5(7) of the Local Government (Northern Ireland) Order 2005
by the Department of the Environment
Date 28th March 2006

NIA 290/03

This Code of Audit Practice has been published by the Chief Local Government Auditor in pursuance of Article 5(6) of the Local Government (Northern Ireland) Order 2005. The Chief Local Government Auditor is designated by the Department of Environment, with the consent of the Comptroller and Auditor General, from a member of staff of the Northern Ireland Audit Office.

Code of Audit Practice for Local Government Bodies in Northern Ireland 2006

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Preface

The role of external audit in the public sector

External audit is an essential part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. External auditors in the public sector give an independent opinion on public bodies' financial statements and may review, and report on, aspects of the arrangements put in place by public bodies to ensure the proper conduct of their financial affairs and to manage their performance and use of resources. Because of the special accountabilities attached to public money and the conduct of public business, external audit in the public sector is characterised by three distinct features:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources; and
- auditors may report aspects of their work to the public and other key stakeholders.

These features are consistent with the 'principles of public audit' as defined by the Public Audit Forum which comprises all the national audit agencies in the UK.

The roles of the DOE and NIAO

The Department of the Environment (DOE) is a central government department with statutory responsibilities to regulate the audit of local government bodies in Northern Ireland.

The Local Government (Northern Ireland) Order 2005 (the Order) provides that the DOE may, with the consent of the Comptroller and Auditor General, designate persons who are members of staff of the Northern Ireland Audit Office (NIAO) as Local Government Auditors. Once designated, auditors carry out their statutory and other responsibilities, and exercise their professional judgement, independently of the DOE and the Comptroller and Auditor General.

The NIAO has established arrangements for the training and development of audit staff, the provision of advice and support on technical matters and regulating the quality of audit work, which assist Local Government Auditors and their support staff in the discharge of audit work.

Statutory responsibilities and powers of Local Government Auditors

The statutory responsibilities and powers of designated Local Government Auditors are set out in the Order. In discharging these specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with a *Code of Audit Practice (the Code)*.

The Code of Audit Practice

Article 5 of the Order requires the Chief Local Government Auditor to “prepare, and keep under review, a *Code of Audit Practice* prescribing the way in which auditors [designated by the DOE] are to carry out their functions” under the Order, and which embodies “what appears to the Chief Local Government Auditor to be the best professional practice with respect to the standards, procedures and techniques to be adopted by auditors”.

The *Code* must be read in conjunction with any regulations made under Article 24 of the Order.

The Chief Local Government Auditor is committed to keeping the *Code* up to date to reflect changes, both in the operating environment of audited bodies and in auditing standards and practice, and may amend the *Code* where appropriate in the light of practical experience.

The *Code* must be approved by a resolution of the Northern Ireland Assembly at intervals of not more than five years. In the intervening period, the *Code* may be amended by the Chief Local Government Auditor in consultation with district councils and other appropriate bodies and persons. The *Code* prescribes the way in which auditors are to carry out their functions under the Order.

The Audit Commission’s model of public audit

The *Code* has been developed on the basis of the Audit Commission’s model of public audit which defines auditors’ responsibilities in relation to:

- the financial statements of audited bodies; and
- audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources.

The model reflects the Audit Commission's concept of an 'integrated audit' in which work in relation to one element of the audit informs audit work in relation to other elements. Central to auditors work in relation to each of these audit responsibilities is a risk-based approach to audit planning, which reflects their overall knowledge of the audited body's business and assessment of the relevant business risks that it faces.

1. General principles

Status and application of the *Code*

- 1.1 Article 5(3) of the Order requires that the *Code* be approved by a resolution of the Northern Ireland Assembly. The Devolved Administration in Northern Ireland is however currently in suspension and, in line with current legislative procedures, copies of the *Code* have been laid in the Assembly's Business Office.
- 1.2 The *Code* comes into force on 1 April 2006 and, except for section 6 which applies from that date, will apply to the audit of the financial statements of local government bodies for the financial year 2006/07 and each financial year thereafter. The *Code* will in due course replace the existing voluntary Code of Audit Practice which was first issued in September 1998 and was most recently revised in June 2004. However the existing voluntary code will apply to the audit of accounts for the financial year 2005/06.

Scope of the *Code*

- 1.3 This *Code* prescribes the way in which auditors of local government bodies, as outlined in Article 4 of the Order, should carry out their functions under the Order. As with any code that attempts to cover a wide variety of circumstances, the application of the *Code* in any particular case will depend on the specific circumstances and on auditors' assessment of what is reasonable and appropriate in those circumstances. All the provisions of the *Code* are to be read and applied with that necessary qualification.
- 1.4 The DOE may wish to assign auditors to carry out different elements of the audit of an audited body. In such cases, auditors should apply the *Code* in so far as, in their judgement, it is appropriate, taking into account any relevant guidance issued by the Chief Local Government Auditor.

Scope of the audit and auditors' objectives

- 1.5 Because of the special accountabilities attached to public money and the conduct of public business, the scope of external audit in local government is extended to cover not only the audit of the financial statements, but also the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources. The audit of the financial statements is covered by professional

auditing standards and so this *Code* focuses more on how auditors, designated by the DOE, should carry out their wider range of functions.

- 1.6 To the extent required by the relevant legislation and the requirements of this *Code*, auditor's objectives are to review and report on:
 - (a) The audited body's financial statements and its statement on internal financial control*; and
 - (b) Whether the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.7 Auditors should plan and carry out their audits to meet these audit objectives and comply with the requirements of the *Code*. Overall responsibility for carrying out an audit that meets these objectives is the responsibility of the designated auditor.
- 1.8 Auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements 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.

The audit approach

- 1.9 Auditors should carry out the audit economically, efficiently and effectively and in as timely a way as possible. In framing an audit approach to meet the objectives of the audit, they should:
 - (a) Plan and perform the audit, on the basis of their assessment of audit risks, determining where to direct their work and to allocate resources to ensure that the audit is tailored to the circumstances of the audited body. They should obtain such information and explanations as they consider necessary to provide sufficient evidence to meet their responsibilities under statute and the *Code*. Auditors are not expected to review or perform detailed tests of all financial or other systems and processes or of all accounting procedures and transactions;
 - (b) Have regard to the principle that each part of the audit needs to be viewed in the context of the whole, or integrated, audit. No one part stands alone

* See Glossary – Statement of Internal Financial Control/Internal Control

and work in relation to one element of the audit informs work in relation to other elements;

- (c) Have regard to the fact that local government bodies operate and deliver their services in a range of partnerships and other forms of joint working or contracts with other public sector, voluntary or private sector bodies. Auditors should therefore consider whether they need to follow public money into and across such arrangements;
- (d) Discuss with the audited body the need for timely and effective production of working papers and other information required for audit so that the audit process can be carried out as efficiently and effectively as possible;
- (e) Establish effective co-ordination arrangements with internal audit. Auditors should seek to place maximum reliance on the work of internal audit whenever possible*;
- (f) Co-operate with other external auditors and the Chief Local Government Auditor and provide information to the Chief Local Government Auditor, to enable knowledge of good practice to be transferred effectively across local government and from one audited body to another; and
- (g) Adopt a constructive and positive approach wherever possible, thereby supporting and encouraging worthwhile change, while providing independent scrutiny and assurance, and fulfilling their statutory and professional responsibilities.

Integrity, objectivity and independence

1.10 Auditors and their staff should exercise their professional judgement and act independently of both the DOE and the audited body. Auditors should not carry out work for an audited body, which does not relate directly to the discharge of their functions, if it would impair their independence or might give rise to a reasonable perception that their independence could be impaired.

Confidentiality

1.11 Auditors should take all reasonable steps to ensure that they and their staff comply with relevant statutory and other requirements relating to the holding and disclosure of information received or obtained during the audit.

2. Auditing the financial statements

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Local Government (Northern Ireland) Order 2005.

Function	Statute
1. To be satisfied that the accounts comply with statutory requirements	Article 6(1)(a)(b)
2. To be satisfied that proper practices have been observed in compiling the accounts.	Article 6(1)(c) Article 10(1)(b)
3. To express an opinion on the accounts.	

2.1 The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- put in place systems of internal financial control* to ensure the regularity and lawfulness of transactions;
- maintain proper accounting records; and
- prepare financial statements that present fairly the financial position of the body and its expenditure and income.

2.2 The audited body is also responsible for preparing and publishing with its financial statements a statement on internal financial control.*

2.3 Auditors are required to audit the financial statements and to give their opinion, including:

- (a) whether they present fairly the financial position of the audited body and its expenditure and income for the year in question; and
- (b) whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

* See Glossary – Statement of Internal Financial Control/Internal Control

2.4 In carrying out this responsibility, auditors should provide reasonable assurance that the financial statements:

- (a) are free from material mis-statement, whether caused by fraud or other irregularity or error;
- (b) comply with statutory and other applicable requirements; and
- (c) comply with all relevant requirements for accounting presentation and disclosure.

2.5 Auditors should review whether the statement on internal financial control* has been presented in accordance with relevant requirements and they should report if the statement:

- does not meet these requirements;
- is misleading; and/or
- is inconsistent with, or incomplete in the light of, other information of which the auditor is aware.

In doing so auditors should take into account the knowledge of the audited body that they gain through carrying out audit work in relation to the body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

2.6 In carrying out their audit of the financial statements in accordance with the Code, auditors should comply with auditing standards currently in force, and as may be amended from time to time, and have regard to any other relevant guidance and advice issued by the Auditing Practices Board (APB), including that covering the work of auditors in relation to audited bodies' statements on internal financial control*. Auditors should also comply with the APB's Ethical Standards currently in force, and as may be amended from time to time.

* See Glossary – Statement of Internal Financial Control/Internal Control

3. The auditor's responsibilities in relation to the use of resources

This section sets out how auditors fulfil the following statutory function. Reference in the table is to the Local Government (Northern Ireland) Order 2005.

Function	Statute
1. To be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources.	Article 6(1)(d)

3.1 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 and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and ratepayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption.

- 3.2 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 meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements and report on these arrangements.
- 3.3 In reviewing the audited body's arrangements for 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. The audited body is responsible for deciding whether and how to implement any recommendations made by auditors. In making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.

Considerations relating to planning audit work in relation to the use of resources

- 3.4 In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors should consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives. 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 risk with the audited body.
- 3.5 Auditors assessment of risk should reflect their consideration of the relevance and significance of the potential business risks faced by all bodies of a particular type and other risks that apply specifically to individual audited bodies. Auditors should also consider the audited body's own assessment of the risks it faces and the arrangements put in place by the body to manage and address its risks. In assessing risks in relation to audited bodies' arrangements to secure economy, efficiency and effectiveness auditors should have regard to evidence gained from previous audit work, including the response of the audited body to previous audit work.

- 3.6 On the basis of their risk assessment auditors should plan their work and decide whether to:
- highlight the risk to the audited body;
 - defer any work in the light of current or planned work by the body;
or
 - carry out work in relation to specific risks to form a view on the adequacy of aspects of the body's stewardship and governance and corporate performance management and financial management arrangements.
- 3.7 In considering whether to carry out work in relation to a particular risk, auditors should have regard to the potential for them to contribute to improvement in the delivery of the functions of the audited body. Such work may include working with others in order to assess how well risks arising from the audited body's involvement in partnerships or other joint working arrangements are being addressed.

Risks identified by the Chief Local Government Auditor

- 3.8 The Chief Local Government Auditor may identify risks relating to the use of resources faced by all local government bodies or a number of local government bodies. In the light of these risks the Chief Local Government Auditor may develop programmes of work or studies that require comprehensive coverage by auditors to enable comparisons to be made. The Chief Local Government Auditor may specify additional elements of work, to be carried out by auditors, which supplement the local risk-based approach to planning the audit.

4. Reporting the results of audit work

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Local Government (Northern Ireland) Order 2005.

Function	Statute
1. To comply with the <i>Code</i> .	Article 6(2)
2. To consider whether, in the public interest, to report on any matter that comes to the attention of the auditor so that it may be considered by the body concerned or brought to the attention of the public.	Article 9
3. To certify the completion of the audit.	
4. To express an opinion on the financial statements.	
5. To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	Article 10(1)(a) Article 10(1)(b) Article 12(2)

Outputs from the audit

- 4.1 The results of audit work will be reported in a range of outputs that, unless specified otherwise, should be addressed to those charged with governance in the audited body.
- 4.2 The following outputs should be issued at key points in the audit process:
- (a) audit planning document;
 - (b) 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;
 - (c) an audit report including the auditor's opinion on the financial statements and a conclusion as to whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
 - (d) a certificate that the audit of the accounts has been completed in accordance with statutory requirements;

- (e) an annual Audit Letter; and
- (f) an annual Management Letter.

4.3 In addition, the following outputs, the need for which may arise at any point during the audit process, should be issued where appropriate:

- (a) a report dealing with any matter that the auditor considers needs to be raised in the public interest under Article 9 of the Order;
- (b) any recommendations under Article 12(2) of the Order; and
- (c) information to be reported to the Chief Local Government Auditor, in a specified format, to enable him to carry out any of his functions, or to assist bodies such as the Northern Ireland Audit Office in carrying out their functions.

Principles of audit reporting

4.4 Auditors should maintain regular communications with those charged with governance in audited bodies and ensure that emerging findings are discussed at the level within the audited body which auditors consider to be most appropriate and on a timely basis.

4.5 All outputs from the audit should be:

- clear and succinctly expressed;
- relevant to the needs of the audited body;
- explicit when drawing conclusions and making recommendations; and
- issued promptly at the appropriate point in the audit process.

4.6 Auditors should report to the audited body in such a way as to enable its members or officers to understand:

- the nature and scope of the audit work;
- any significant issues arising from auditors' work;

- the nature and grounds for any concerns they have; and
- where appropriate, any action that needs to be taken by the audited body to secure improvement.

6.7 Auditors' recommendations, arising from their work in relation to audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, should:

- be specific about what action the audited body should consider taking;
- be useful, practicable and based on an assessment of the benefits to the audited body of implementing them; and
- take account of the costs of implementation and, where these are likely to be significant, report this.

Audit planning documents

4.8 Audit planning documents should set out how auditors intend to carry out their responsibilities in light of their assessment of risks. Auditors should explain their assessment of risks and discuss audit planning documents with those charged with governance. They should include provision for effective follow-up arrangements to review whether the audited body has properly considered any matters that have been identified previously and, where appropriate, has implemented agreed actions. Planning documents should be kept under review and updated as necessary.

Reports or memoranda on individual aspects of audit work

4.9 Auditors may report the results of, and matters arising from, specific elements or parts of the audit in reports, memoranda or properly evidenced presentations. Such reports, memoranda or presentations should be prepared and issued or delivered as soon as possible after completion of the work.

Audit reports

4.10 The audit report covers all the responsibilities of the auditor under Article 6 of the Order. Therefore, it comprises the auditor's opinion on the financial statements and, having regard to relevant criteria, the auditor's conclusion

whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The audit report should also include by exception, any report by the auditor on:

- the statement on internal financial control*;
- any matters that prevent the auditor being satisfied that the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
- any matters reported in the public interest in the course of, or at the conclusion of, the audit;
- any recommendations made under Article 12 of the Order; and
- the exercise of any other special powers of the auditor under the Order.

Auditors' certificates

4.11 Auditors are required to certify the completion of each audit. The effect of the certificate is to close the audit and this marks the point when the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged.

4.12 There will be occasions when audit work in relation to the financial statements is substantially completed but the audit cannot be concluded - for example, because there are outstanding matters to be resolved arising from action or possible action under the Order. Auditors should consider issuing their audit certificate, including the opinion and the conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, as soon as the necessary audit work has been carried out, subject to any exception or other qualification that the auditor may need to consider.

Annual Audit Letters

4.13 The purpose of preparing and issuing annual audit letters is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from audit work which the auditor considers

* See Glossary – Statements of Internal Financial Control/Internal Control

should be brought to the attention of the audited body. The annual audit letter should cover the work carried out by auditors since the previous annual audit letter was issued.

- 4.14 While the format of the annual audit letter is not prescribed, it should highlight the key issues and conclusions of the audit. It should be prepared in clear language that is concise and accessible to a wide audience.
- 4.15 The annual audit letter should be addressed to all members of the audited body and the auditor should ensure that all members receive a copy. Where the audited body does not arrange for distribution to all members, the auditor should make the necessary arrangements.
- 4.16 The auditor should issue the annual audit letter to the audited body as soon as possible after completion of the audit and, other than in exceptional circumstances, no later than any date specified by the Chief Local Government Auditor.

Annual Management Letters

- 4.17 The purpose of preparing and issuing annual management letters is to communicate to the Chief Financial Officer of the audited body more detailed matters arising from the audit. Key audit issues and conclusions will have been included in the annual audit letter. The annual management letter will include those additional points which the auditor views as offering the Chief Financial Officer the opportunity to improve the management of the audited body.

Reports in the public interest (Article 9 of the Order 2005)

- 4.18 Article 9 of the Order requires that auditors should consider whether, in the public interest, they should report on any matters that come to their attention in the course of the audit, so that it may be considered by the audited body or brought to the attention of the public.
- 4.19 Auditors should consider whether the public interest, requires any such matter to be made the subject of an immediate report rather than of a report to be made at the conclusion of the audit. A report in the public interest should be made where auditors consider a matter is sufficiently important to be brought to the notice of the audited body or the public as a matter of urgency.

4.20 In preparing and issuing reports in the public interest, auditors should tailor their approach to the urgency and significance of their concerns.

Recommendations under Article 12(2) of the Order

4.21 The auditor should consider whether to make any written recommendations to the audited body, under Article 12(2) of the Order, which 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.

Information to be reported to the Chief Local Government Auditor

4.22 From time to time auditors may be required to report information to the Chief Local Government Auditor, in a specified format, to enable him to carry out his functions.

5. Principles relating to the exercise of specific powers and duties of Local Government Auditors

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Local Government (Northern Ireland) Order 2005.

Function	Statute
1. To give interested persons the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts.	Articles 17 and 18
2. To consider whether to apply to the court for a declaration that an item of account is contrary to law.	Article 19
3. To consider whether there has been a loss or deficiency caused by a failure to account or wilful misconduct.	Article 20
4. To consider whether to make an application for judicial review.	Article 21

5.1 In addition to the general functions of auditors set out in previous sections of the *Code*, auditors of local government bodies have specific powers and duties under the Order. In exercising any of these specific powers and duties auditors should tailor their approach to the particular circumstances of the matters under consideration.

5.2 Where any representations are made or information is provided that is relevant to the audit, or matters relevant to the audit otherwise come to their attention, auditors should consider whether the matter needs investigation and action under their specific powers or whether it can be considered more effectively within planned work programmes and audit reporting arrangements under their general audit powers.

5.3 In considering whether to exercise any of their specific powers under the Order, auditors should apply a balanced and proportionate approach in determining the time and resources to be spent on dealing with matters that come to their attention. They should consider:

- the significance of the subject matter;
- whether there is wider public interest in the matter raised;

- the costs of dealing with the matter, bearing in mind that these fall directly on ratepayers; and
- in the case of objections, the rights of both those subject to the objection and the objector.

5.4 Auditors should reject objections that disclose no reasonable cause for action, are frivolous or vexatious, or are otherwise an abuse of the audit process.

6. The auditor’s rights of access to third parties

This section sets out how auditors fulfil that aspect of the following statutory function which relates to their access to third parties. Reference in the table is to the Local Government (Northern Ireland) Order 2005.

Function	Statute
1. To have access at all reasonable times to every document relating to a local governmentbody.	Article 7

6.1 The *Code* aims to ensure that the statutory access rights provided to the auditor, to documents which are held by third parties, and relate to local government bodies, are exercised in the same professional manner as access rights provided to documents held by local government bodies. This is to ensure that sufficient information is obtained for the purposes of the examination being undertaken without placing unnecessary burden on those subject to access.

Who is covered

6.2 The *Code* concerns the relations between auditors, third parties that are subject to the auditor’s right of access, and local government bodies.

Notification

6.3 The auditor will normally consult local government bodies on his intention to exercise statutory access rights to documents held by third parties. The need for consultation may not apply in exceptional circumstances (see under **Exceptional circumstances** below).

Explanation of work

6.4 The auditor will explain the basis of the decision to exercise his right of access to documents held by third parties, set out the purpose and scope of the intended examination, and consider comments from the third party and the local government body. This will include cases where the DOE or Chief Local Government Auditor has statutory powers to require an auditor to undertake

comparative and other studies to enable him to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies.

Purpose of Access

6.5 This *Code* makes clear that:

- statutory access to third party documents is needed to enable the auditor to carry out any of his statutory duties – including comparative and other studies when required by the DOE or the Chief Local Government Auditor to undertake this work;
- the auditor’s access will be limited to papers and records which relate to the local government body, not to the business of the third party;
- the auditor will not be seeking to conduct a study of the business of the third party.

Extent of work

6.6 The auditor applies professional auditing standards and professional judgement when determining the level of work necessary to complete an investigation. In doing so, the auditor seeks to use the most efficient techniques to obtain the evidence required and minimise the impact on the body concerned. Where possible, the auditor will place reliance on relevant work completed by other parties – for example, by working with or making use of the work of internal audit, other auditors and inspectors/regulators – or will seek to accompany the local government body on its own inspections, rather than visiting separately.

6.7 The Chief Local Government Auditor anticipates no significant increase in the overall volume of existing local government audit work from the exercise of such rights.

Facilitation of access

6.8 Third parties will provide the auditor, at all reasonable times, access to all such documents as he may reasonably require.

Reporting back

- 6.9 The auditor will inform the third party and the local government body of the results of his work within a reasonable period of completion and take into account comments on factual accuracy and fair presentation.

Resolution of issues

- 6.10 Local government bodies that have issues with the exercise of the auditor's statutory access rights to documents held by third parties, should seek to resolve them with the designated auditor. If this proves unsatisfactory the Chief Financial Officer may wish to raise the issue with the Chief Local Government Auditor. Where a third party which has been subject to access has concerns about the approach taken by an auditor it will similarly be able to discuss such concerns with the auditor or make representations through the local government body to the Chief Local Government Auditor.

Exceptional circumstances

- 6.11 There may be exceptional circumstances that will override the arrangements set out above, such as alleged fraud or impropriety.

Glossary

Annual Audit Letter

Report issued by the auditor to an audited body, which summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Annual Management Letter

Report issued by the auditor to the Chief Financial Officer of an audited body which includes detailed matters, not raised in the annual audit letter, which the auditor views as offering the Chief Financial Officer the opportunity to improve the management of the audited body.

Audit

The audit of the accounts of an audited body, which comprises the audit of the financial statements and other work to meet auditors' other statutory responsibilities under the Local Government (Northern Ireland) Order 2005.

Audited body

Body to which the Department of the Environment is responsible for assigning the Local Government Auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'members' and 'those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Local Government Auditors designated by the DOE, with the consent of the Comptroller and Auditor General, from the staff of the NIAO.

Code (the)

The Code of Audit Practice

Department of Environment (DOE)

The central government department with statutory responsibilities to regulate the audit of local government bodies in Northern Ireland and to promote improvements in the economy, efficiency and effectiveness in the provision of services by local government bodies.

Ethical standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual financial statements or statement of accounts in the prescribed form.

Internal Audit

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisations objectives. Although it is good practice to have an Internal Audit function, there is currently no legal requirement for local government bodies in Northern Ireland to have an Internal Audit function. The DOE proposes to amend

regulations made under Article 24 of the Order to require local government bodies to put in place an Internal Audit function for the financial year 2007/08 and thereafter.

Local government bodies

A district council, a committee of a council for which accounts are separately kept or a joint committee of two or more councils (as defined in Article 3(2) of the Order).

Members

The elected or appointed members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'those charged with governance' and 'audited body').

NIAO

Northern Ireland Audit Office.

Order (the)

The Local Government (Northern Ireland) Order 2005

Studies for improving economy, efficiency and effectiveness

Auditors have powers, if required by the DOE or Chief Local Government Auditor, under Article 26 of the Order to carry out 'value for money' studies in local government, to enable them to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies.

Statement of Accounts

The annual Statement of Accounts or financial statements in the prescribed form.

Statement of Internal Financial Control/Internal Control

Local government bodies are currently required to publish a statement on internal financial control (SIFC) in accordance with proper practice, with their annual

accounts. Although it is good practice to include a more wide ranging statement on internal control (SIC) there is currently no legal requirement for local government bodies in Northern Ireland to prepare a SIC. The DOE proposes to amend regulations made under Article 24 of the Order to require local government bodies to include a SIC for the financial year 2007/08 and thereafter.

Those charged with governance

Those charged with governance are defined in auditing standards as ‘those persons entrusted with the supervision, control and direction of an entity’. In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for district councils - the full council, audit committee (where established), any other committee with delegated responsibility for approval of the financial statements; and
- for other local government bodies - the full body, audit committee (where established), or any other committee with delegated responsibility for approval of the financial statements.

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