

Code of Audit Practice (Draft)

Summary of consultation responses

Introduction

The Local Government (Northern Ireland) Order 2005 (the Order) makes the Local Government Auditor responsible for the preparation and maintenance of the Code of Audit Practice (the Code). The Code sets out what the Local Government Auditor should do to meet his/her statutory responsibilities for the audit of local government bodies under the Order and the Local Government (Northern Ireland) Act 2014 (the Act).

Subject to the Northern Ireland Assembly's (the Assembly) approval, the Code will take effect from 1 April 2016 for audit work relating to the 2016-17 financial year onwards. Ahead of this, the Northern Ireland Audit Office (NIAO), on behalf of the Local Government Auditor, has conducted a public consultation to obtain stakeholder views on the draft Code. The public consultation ran for 12 weeks from 2 September to 1 December 2015. This document provides a summary of the responses received and highlights the main changes made to the draft Code in response to the consultation exercise.

We received a total of 10 responses to the public consultation. **Appendix One** shows a breakdown of respondents by type and **Appendix Two** provides a numerical breakdown of responses to individual consultation questions. **Appendix Three** is a list of respondents.

We are very grateful to those who took the time to participate in the public consultation.

Summary of consultation responses

- 1.1 The consultation document published alongside the draft Code invited responses to 14 questions addressing the draft Code's constituent parts. This summary of consultation responses follows the structure of the draft Code and focuses on the main themes and issues arising as a result of respondents' feedback.
- 1.2 Some respondents provided a number of suggestions for the inclusion of additional material within the Code¹. Other responses included a number of operational observations which should be addressed during the audit process itself, rather than in the Code. Further responses were operational opinions which do not have an impact on the content the Code. With the exception of a small number of these observations and opinions, which required some form of clarification, these points are not reflected in this document. However, the Local Government Auditor has noted these points and, where relevant, they will be addressed going forward. In considering the relevant suggestions in relation to the Code's content the Local Government Auditor has:
- sought to retain the Code as a principles-based document and avoid any significant expansion in its size or content; and
 - aimed to avoid reproducing significant amounts of material contained in existing primary documents such as legislation and professional standards.

¹ Some suggestions related to matters which had already been addressed within the consultation draft and therefore have not been included in this document.

Preface (and structure)

- 2.1 Respondents were supportive of the Code being principles-based and that the content of the Preface was adequate.
- 2.2 Two respondents indicated that the Code could be supplemented by more detailed and prescriptive guidance for audited bodies. Whilst the Local Government Auditor understands how this could be seen to be helpful to audited bodies, experience has shown that this can lead to more protracted (and expensive) audits. The Local Government Auditor (including her staff and any private sector audit firms) will remain responsible for the detailed planning and conduct of the audit, and for the professional judgements underpinning the audit conclusions. However, there continues to be an opportunity to provide relevant information, particularly in relation to the level and detail of work required, during the planning stage of each audit. In so doing, we will seek to facilitate consistency of approach, but understand that a 'one size fits all' approach across audited bodies may not always be appropriate.
- 2.3 One respondent suggested that there is an opportunity to set out the ambition and direction for external audit over the next five years. Whilst the Local Government Auditor agrees with this suggestion in principle, his/her responsibilities are currently regulated (and therefore principally determined) by both the Department of the Environment (the Department) and the Assembly. The Local Government Auditor's direction and ambition is therefore constrained in this regard. However, the Local Government Auditor will continue to assist and support improvement in the local government sector.
- 2.4 One respondent expressed its opposition to the use of external audit firms. Whilst this is an operational matter, the use of private sector audit firms is sometimes unavoidable and arises mainly when the Local Government Auditor's statutory responsibilities (and/or the timing thereof) exceed the NIAO's in-house resources. The same respondent expressed its wish to be consulted on an ongoing basis to any revisions to the Code and any regulations made under Articles 24 and 102 of the Order. In the event that any revisions are required to be made to the Code these will be consulted upon. However, any revisions to the regulations will be a matter for the department with responsibility for regulating the external audit of local government bodies (currently the Department of the Environment).

- 2.5 One respondent suggested that the inclusion of diagrams or flowcharts would be useful in linking the Code to other matters. Having considered this the Local Government Auditor is not minded to include flowcharts and diagrams.
- 2.6 One respondent believed that an Annex setting out the different types of local government bodies that should comply with the Code. This is already addressed in footnote one of the Preface.

Chapter One – Status of the Code, scope and general principles

- 3.1 Respondents were largely in agreement that Chapter One provided a clear description of the status and application of the Code and identified the correct general principles.
- 3.2 One respondent commented on the transparency of the main annual audit reports and whether the Local Government Auditor would consider publishing them on the NIAO website. Whilst it is a local government body's responsibility to publish these reports the Local Government Auditor has accepted that there is potential for improving transparency by facilitating centralised access to all of the reports and as such has decided to accept this recommendation. This has been reflected in the final draft Code.
- 3.3 Three respondents wished to see more reliance placed on the work of internal audit, with one of the respondents indicating that this should be reflected in the body of the Code. The Local Government Auditor believes that this has been sufficiently highlighted in paragraph 1.15 of the Code. The more detailed scope and application of this matter is established and documented within professional auditing standards² and is, where applicable and appropriate, applied by the Local Government Auditor. Therefore, in line with the comment at paragraph 1.2, the Local Government Auditor does not see the Code as a place to replicate this detail.
- 3.4 One respondent indicated that the principle of 'practicality' should be used, particularly in relation to the complexity of accounts and the work required producing and finalising them. However, the format of the accounts (and consequently the work required by audited bodies to produce them to acceptable standards) is a matter outside of the control and responsibility of the Local Government Auditor, being determined by the Department and public sector accounting practice.
- 3.5 One respondent expressed its expectation to be consulted upon the introduction or revision of performance improvement duties/targets by Departments/ the Local Government Auditor and individual councils. The decision to consult on Performance improvement duties and or statutory targets is solely a matter for the Department and councils have a duty to consult on their performance improvement objectives. The

² ISA 610, *Using the Work of Internal Auditors*

Local Government Auditor is independent of these processes. The same respondent highlighted the need to engage with them regarding certain arrangements at local government bodies set out within the 'Wider Scope' section of Chapter One, as they impinge upon local government employees. These arrangements are established by local government bodies and the Local Government Auditor's assessment of these arrangements is an independent matter. Any engagement should therefore be with individual councils.

- 3.6 One respondent believed that the 'coordination and integration' principle could be expanded to promote the sharing of knowledge across the local government sector. This is something which is already incorporated in the 'transparency and public reporting' principle

Chapter Two – Audit of the financial statements

- 4.1 Respondents were largely in agreement that Chapter Two addressed clearly the Local Government Auditor's statutory duties in respect of the audit of the financial statements.
- 4.2 One respondent requested consideration to be given to the area of "giving advice on best practice". In providing any advice in relation to the financial audit the Local Government Auditor and her staff, must maintain independence and objectivity. Technical advice and recommendations are provided to management throughout the audit process as well as attendance and engagement at Audit Committee meetings and other executive meetings e.g. SOLACE³. In addition, the Local Government Auditor and the NIAO publish the Local Government Annual Report, good practice guides, host seminars and support conferences with the sole aim of disseminating good practice. The Local Government Auditor believes that the Internal Auditors of an audited body are better placed to provide any additional advisory role.
- 4.3 One respondent indicated the usefulness of guidance notes to indicate the level of work required for the Local Government Auditor to reach her opinions. In this regard we refer back to our comment in paragraph 2.2.
- 4.4 One respondent thought it may be useful to include expectations in this chapter around planning and reporting of the audit, however the Local Government Auditor believes this is sufficiently covered in Chapter Five.
- 4.5 One respondent was of the view that the Code should contain reference to responsibilities in relation to the fraud and whistleblowing matters. Whilst neither of these responsibilities are set out in the Order or the Act, the Local Government Auditor has agreed that there is merit in providing a high level overview within the Code and has amended the Code accordingly.

³ Society of Local Authority Chief Executives and Senior Managers

Chapter Three – The Local Government Auditor’s work on economy, efficiency and effectiveness

- 5.1 Respondents were largely in agreement that Chapter Three addressed clearly the Local Government Auditor’s statutory duties in respect of their work on economy, efficiency and effectiveness.
- 5.2 One respondent highlighted the need to share lessons of good practice. In regard to this we refer back to our comment in paragraph 4.2 which is equally applicable to this separate area of audit work.
- 5.3 One respondent asked for a reference to be made to where auditors can find guidance and good practice. The Local Government Auditor and the NIAO provide internal training and guidance to all staff working on these audits. As per paragraph 4.2, good practice is disseminated through a number of channels throughout the audit process.
- 5.4 One respondent believed that a link was required with Chapter Four and the Performance Improvement Audits and Assessments. Whilst there may be occasions where small elements of the work overlap, (also recognised by a second respondent) this programme of audit work has a separate statutory status along with separate and distinct processes. The opportunity for coordination and integration is set out as a principle in Chapter One and this is reflected in paragraph 1.16 of the Code.

Chapter Four – The Local Government Auditor’s work on performance improvement

- 6.1 Respondents were largely in agreement that Chapter Four addressed clearly the Local Government Auditor’s statutory duties in respect of his/her work on performance improvement.
- 6.2 Two respondents indicated the need for supplementary guidance e.g. criteria to be assessed and level of work required by councils to demonstrate their arrangements. The responsibility to provide guidance on the framework falls to the Department, who have already issued detailed guidance for consultation. This guidance supplements the legislation which sets out all council responsibilities. The guidance also sets out in more detail the Local Government Auditor’s role in the framework and this is aligned to the Code. Due to the complex nature of the area and the diverse nature of council improvement objectives, the programme of work will differ between each council. Any further information will be provided to individual councils during the process as required.
- 6.3 Two respondents believed that further clarification was required in the Code in relation to the terms ‘audit’ and ‘assessment’. A full description of both these terms and the responsibilities and processes are set out in Part 12 of the Act and the Department’s guidance. This chapter of the Code is aligned to both sets of legislation. Due to the complexity and detail underlying these terms, and in line with paragraph 1.2, the Local Government Auditor does not believe they can, or should be summarised within the Code.
- 6.4 One respondent suggested that paragraph 4.4 of the Code should reflect that the audits and assessments are carried out annually. The paragraph has been amended to reflect this. However, the Department may direct the Local Government Auditor to reduce the regularity of certain aspects of the audits and assessments. Should this ever arise the Code will be amended accordingly.
- 6.5 One respondent believes that the Chapter should contain a commitment to communicate throughout the process. The Local Government Auditor believes that this is adequately covered in Chapter Five of the Code.

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- 6.6 One respondent believed that reporting process could be simplified. The Local Government Auditor welcomes, and will give consideration to, relevant suggestions which could make the audit processes more efficient. However, this does not impact on the Code.

Chapter Five – Reporting the results of the Local Government Auditor’s work

- 7.1 Respondents were largely in agreement that Chapter Five addressed clearly the Local Government Auditor’s statutory duties in respect of his/her reporting requirements.
- 7.2 One respondent raised the matter of improving availability of reporting outputs and with regard to this we refer back to our comment made in paragraph 3.2.
- 7.3 One respondent raised the matter of communication and suggested the inclusion of standard timescales. The Local Government Auditor believes that this is an operational matter which is addressed during the audit process and is not appropriate for a high level, principles based code. The subject of communication is already covered in paragraph 5.3 of the Code.

Chapter Six – The Local Government Auditor’s additional powers and duties

- 8.1 Respondents were largely in agreement that Chapter Six addressed clearly the Local Government Auditor’s statutory duties in respect of additional powers and duties.
- 8.2 Two respondents believed that this chapter should include reference to responsibilities relating to whistleblowing and fraud. The Local Government Auditor agreed that this would be a useful inclusion and has amended the Code accordingly.
- 8.3 One respondent believed it would be useful to include examples of when these powers have been used. The Local Government Auditor believes that the use of examples would not be appropriate in a high level, principles based code.

Chapter Seven – Smaller local government bodies

- 9.1 Respondents were largely in agreement that Chapter Seven addressed clearly the Local Government Auditor's statutory duties in respect of smaller local government bodies. Since the consultation document was issued, the Department issued its direction and the final draft Code now reflects any additional information.
- 9.2 One respondent indicated the usefulness of guidance notes to indicate the level of work required for the Local Government Auditor to reach his/her opinions. In this regard we refer back to our comment in paragraph 2.2.

Chapter Eight - The Local Government Auditor's rights of access to third parties

- 10.1 Respondents were largely in agreement that Chapter Eight addressed clearly the Local Government Auditor's statutory duties in respect of the Local Government Auditor's rights of access to third parties.
- 10.2 One respondent felt that this chapter was too long and suggested referencing the subject to supplementary guidance. The Local Government Auditor has considered this viewpoint and is satisfied that the Chapter and its content warrant inclusion within the Code.
- 10.3 One respondent believed that reference to the Data Protection Act should be included. This is already covered in the 'Data and Security' principle within the Preface of the Code.

Schedules

- 11.1 The aim of these schedules is to provide an accessible view of the Local Government Auditor's responsibilities under legislation. To achieve this we have summarised (rather than reproduced) the relevant sections of legislation.
- 11.2 No comments were made in relation to these schedules, but would stress that the schedules are not intended to be a substitute for consideration of the detailed requirements of the legislation itself.

Glossary

- 12.1 Respondents suggested a small range of potential additions and amendments to the glossary. We have considered these and updated the glossary where we felt it was helpful to do so, taking into account the overall balance of the document.

Next steps

- 13.1 This summary of consultation responses will be published alongside the final draft Code. The Local Government Auditor has issued the final draft Code to the Department who will arrange for its minister to lay the draft Code and seek the Assembly's approval by 1 April 2015. The Local Government Auditor will then publish the approved Code.

Appendix One –Types of respondents

Type of respondent	Number of responses	Percentage (%)
Local government bodies	7	70
Sector representative bodies	0	0
Central government bodies	0	0
National audit bodies	1	10
Professional bodies	1	10
Audit and accountancy firms	0	0
Other bodies	1	10
Personal responses	0	0
Total	10	100

Appendix Two - Responses to consultation questions⁴

	Preface						Chapter One				Chapter Two		Chapter Three	
	Q 1		Q2		Q3		Q4		Q5		Q6		Q7	
Type of respondent	Is there any further information that you consider should be included within the preface to the Code?		Do you agree that the Code should be struck at a principles-based level?		Do you agree with the proposed structure and content of the Code?		Does Chapter One of the draft Code provide a clear description of the status and scope of the Code?		Does Chapter One of the draft Code identify the correct general principles?		Does Chapter Two of the draft Code address clearly the Local Government Auditor's statutory duties in respect of the audit of financial statements?		Does Chapter Three of the draft Code address clearly the Local Government Auditor's statutory duties in respect of his/her work on proper arrangements?	
	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N
Local government bodies	7	0	7	0	5	2	7	0	5	2	6	1	7	0
National audit bodies	0	1	1	0	1	0	1	0	1	0	1	0	1	0
Professional bodies	1	0	1	0	1	0	1	0	0	1	1	0	1	0
Other bodies	1	0	1	0	1	0	1	0	1	0	1	0	1	0

⁴ Three respondents completed their responses in their own format, rather than the provided template. Therefore some questions were not answered. An assumption has been taken that where a question has not been directly answered that the respondent is agreeable to that element of the consultation.

Appendix Two - Responses to consultation questions (continued)

	Chapter Four		Chapter Five		Chapter Six		Chapter Seven		Chapter Eight		Schedules		Glossary	
	Q 8		Q9		Q10		Q11		Q12		Q13		Q14	
Type of respondent	Does Chapter Four of the draft Code address clearly the Local Government Auditor's statutory duties in respect of his/her work on the performance improvement duties of councils?		Does Chapter Five of the draft Code address clearly the Local Government Auditor's statutory duties in respect of their reporting requirements for the different types of audit covered by this Code?		Does Chapter Six of the draft Code address clearly the Local Government Auditor's use of the additional powers set out in this chapter?		Does Chapter Seven of the draft Code address clearly the Local Government Auditor's statutory duties in respect of his/her work on smaller local government bodies?		Does Chapter Eight of the draft Code address clearly the Local Government Auditor's rights of access to third parties?		Do you have any comments on the material provided in the Schedules to the draft Code?		Do you have any observations on the completeness or accuracy of the Glossary?	
	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N
Local government bodies	6	1	4	3	4	3	5	2	6	1	0	7	1	6
National audit bodies	0	1	1	0	0	1	0	1	0	1	0	1	1	0
Professional bodies	1	0	1	0	1	0	1	0	1	0	0	1	0	1
Other bodies	1	0	1	0	1	0	1	0	1	0	0	1	0	1

Appendix Three – List of respondents

Antrim and Newtownabbey Borough Council

APSE

Ards and North Down Borough Council

Audit Scotland

Belfast City Council

Derry and Strabane City Council

Fermanagh and Omagh District Council

Lisburn and Castlereagh Borough Council

Mid and East Antrim Borough Council

NIPSA