



NEW CODE OF AUDIT PRACTICE - 2020 CONSULTATION UPDATE

CITY OF YORK COUNCIL

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BACKGROUND

Schedule 6 of the Local Audit and Accountability Act 2014 ('the Act') requires that the Code of Audit Practice ('the Code') be reviewed, and revisions considered at least every five years.

The current Code came into force on 1 April 2015 and the maximum five-year lifespan of the Code requires it to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

The National Audit Office ('NAO') is currently consulting on their proposed changes to the Code. This consultation is in two stages, as outlined in this document.

STAGE 1 - INITIAL CONSULTATION

Stage 1 of the consultation has now closed. Key stakeholders were invited to respond to 21 questions across 6 sections of the Code. Our briefing paper highlights the NAO's responses to the consultation.

Section 1 – status of the Code, application and general principles

- The NAO proposed maintaining a single Code, supported by sector-specific guidance.
- The NAO reviewed the current principles and considered strengthening references to proportionality, professional scepticism and acting in the public interest.
- Outside of the Code, the NAO reflected on how it could enhance auditor guidance on joint arrangements and partnerships.

Section 2 – Audit of the financial statements

- The NAO proposed that the Code remained aligned to generally accepted auditing standards, for example, International Financial Reporting Standards ('IFRS') and International Standards on Auditing Standards ('ISA').
- The NAO stressed the importance of properly accounting for assets and liabilities, when local bodies engage in 'commercial activities'.

STAGE 1 - INITIAL CONSULTATION

Section 3 – The auditor’s work on economy, efficiency and effectiveness of corporate arrangements (value for money)

- The NAO will consider if the new Code should introduce a requirement for auditors to consider and report on specific risks, such as financial sustainability and governance.
- The NAO proposed that auditors should consider how local bodies gain assurance for their own arrangements.
- The NAO considered if auditors should include an annual opinion or replace/supplement the opinion with a commentary on specific risks set out in auditor guidance.

Section 4 – Reporting the results of the auditor’s work

- The NAO considered if the Code should put greater emphasis on the need for ‘timely’ reporting, not only on the reporting deadline, but also in terms of raising issues at the appropriate time.
- The NAO considered how auditors report the results of their work. This includes the audit opinion on the financial statements and potentially a separate annual audit report, replacing the Annual Audit Letter. They also considered introducing a requirement to formally follow-up and report on progress against previous recommendations and set out the auditor’s view of the adequacy of the body’s response.

STAGE 1 - INITIAL CONSULTATION

Section 5 – Auditor’s additional powers and duties

The NAO reflected on the following:

- An expectation that auditors will report on whether they have exercised any additional powers and the considerations relevant to their decision.
- An expectation for auditors to promptly determine if they will accept an objection for consideration and that they will actively communicate with the elector and audited body on progress.

Section 6 – Smaller authority assurance engagements

Not applicable to City of York Council.

STAGE 2 – CONSULTATION ON THE TEXT OF THE DRAFT CODE

The NAO has considered their findings from stage 1 and they have incorporated them into the draft Code.

Stage 2 of the consultation will be open until November 2019 and the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code, based on its findings from stage 1.

Both of these documents can be found on the NAO's website at:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation>

The NAO has summarised the proposed changes in its 'Local Audit in England Code of Audit Practice' document; we have highlighted the key changes in this section.

STAGE 2 – CONSULTATION ON THE TEXT OF THE DRAFT CODE

Section 1 – status of the code, application and general principles

- The draft Code retains the principle of maintaining a single Code, supported by sector-specific guidance for, for example, Local Government and the NHS. While it states that a principles-based approach remains appropriate, it does provide additional guidance on the definition of ‘wider scope’ in public audit, independence and public reporting.

Section 2 – Audit of the financial statement

- The draft Code remains aligned with generally accepted auditing standards and provides the option to introduce enhanced auditor reporting on the financial statements at some, or all, local bodies.

STAGE 2 – CONSULTATION ON THE TEXT OF THE DRAFT CODE

Section 3 – The auditor’s work on economy, efficiency and effectiveness of corporate arrangements (value for money)

- The draft Code sets out a new approach to work in this area, including putting a sharper focus and an expectation for clearer and timely reporting.
- While the focus on the body’s arrangements to secure VFM and the risk-based auditor approach is retained, the draft Code revises the overall criterion and three supporting sub-criteria and will include statutory procedures auditors will need to complete in the following areas:
 - Financial sustainability
 - Governance
 - Improving economy, efficiency and effectiveness
- In a change to the current overall, binary conclusion relating to the previous year’s performance, auditors will be required to issue commentary on each of the criteria.

STAGE 2 – CONSULTATION ON THE TEXT OF THE DRAFT CODE

Section 4 – Reporting the results of the auditor’s work

- The NAO has outlined the requirements of local auditors’ main outputs in this section:
 - Auditor’s report on the financial statements (including any reporting required by auditing standards to those charged with governance).
 - The Auditor’s Annual Report – this should bring together all of the auditors work in the financial year, including the proposed changes to VFM reporting set out in section 3.

Section 5 – Auditor’s additional powers and duties

- The draft Code emphasises the need to consider the impact of exercising additional powers, including considering the proportionality of auditors’ responses.
- It also puts additional emphasis on the need for auditors to consider public interest more widely and when to issue Public Interest Reports. The section also sets out the time period for each stage of the objection process.

STAGE 2 – CONSULTATION ON THE TEXT OF THE DRAFT CODE

Section 6 – Smaller authority assurance engagements

Not applicable to City of York Council.

Next steps

The NAO plans to finalise the text included in the draft Code by the end of 2019, so that it can be laid before Parliament in 2020 and come into force from 1 April 2020. The NAO also plans to publish the results from the stage 2 consultation in early 2020.

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