ICAEW
REPRESENTATION 122/19

CODE OF AUDIT PRACTICE

Issued 22 November 2019

ICAEW welcomes the opportunity to comment on *Local Audit in England: Code of Audit Practice – Consultation on draft Code* published by the National Audit Office in August 2019, a copy of which is available from this link.

We support the proposals of the Code of Audit Practice, such as the proposals to extend the requirements for enhanced auditor reporting as well as the new criteria for improving Value for Money reporting.

We strongly support audit guidance that will help deliver high quality audits, which we believe this Code achieves. However, the continued reference to timely audit and the statutory audit deadlines might counteract this to some extent.

This response of 22 November 2019 has been prepared by the ICAEW Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the Faculty is responsible for audit and assurance submissions on behalf of ICAEW. The Faculty has around 7,500 members drawn from practising firms and organisations of all sizes in the private and public sectors

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ICAEW Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
T +44 (0)20 7920 8100 **icaew.com**

GENERAL COMMENTS

SUPPORT FOR THE PROPOSALS

1. We generally support the proposals for updating the Code of Audit Practice (the Code). We have made a number of specific observations and suggestions, set out by chapter below. We also have two more general observations:
    - We note that the Code still refers to timely reporting, but believe it should emphasise that audit quality is paramount. There should not be unnecessary pressure to meet deadlines at the expense of quality. The statutory reporting deadline of 31 July is proving challenging for some local authorities.
    - The increasing complexity of local government audit, combined with a sharper focus on Value for Money (VFM), will increase the pressure to recruit and retain people with the appropriate skills and knowledge, which may in turn have implications for future fee levels.

ALIGNING THE CODE WITH THE WIDER AUDIT DEBATE

2. We note that the new Code remains aligned with generally accepted auditing standards and that it has not introduced any adaptations or set any further requirements on how these standards should be applied. The consultation states that this approach will enable the Code to adapt to any changes arising as a result of the wider debate within the audit profession.
3. We think that this is a sensible approach to take. However, ICAEW is also of the view that it would be beneficial for the Code to wait for the Redmond Review recommendations to be published. In particular, we believe the proposed changes to the VFM conclusion may need to align with any recommendations that the Redmond Review may propose.
4. We are aware that that there is a Parliamentary timetable in place to review the Code every five years, but we think it would be reasonable to ask Parliament to either:
    a) extend the current Code for one more year, in lieu of the Redmond Review recommendations, the recommendations from the Brydon Review and allow the public audit debate to come to a conclusion before making substantial changes to the Code; or
    b) when publishing the new Code, highlight to Parliament that the new Code will need to be updated again to reflect the outcome of the various audit debates in both the public and private sectors.

SPECIFIC COMMENTS ON THE DRAFT CODE

CHAPTER 2 – ENHANCED AUDIT REPORTS

5. We are supportive of the proposals to extend the requirements for enhanced auditor reporting but believe that careful consideration should be given to the extent to which enhanced reporting should be applied to different categories of authority. Evidence from the NHS Foundation Trust sector shows that the same key audit matters are reported every year, which reduces their usefulness over time. Auditors must ensure that enhanced audit reports remain meaningful year on year and don’t just include boilerplate wording.
6. We also agree with the proposal to separate the audit report on the financial statements from VFM reporting in the annual report, since combining enhanced auditor reporting on VFM and enhanced auditor reporting on the financial statements can result in unwieldy reports that are too long.

CHAPTER 3 – VALUE FOR MONEY

7. The new criteria for improving VFM is welcome, given the need for local authorities to continuously improve service delivery.
8. The current approach to assessing arrangements to secure VFM is for the auditor to report on the overall arrangements but, as the consultation notes, more can be done in this area. The Code revises the previous reporting criteria to cover financial sustainability, governance and improving economy, efficiency and effectiveness.
9. However, it may be difficult to reconcile the auditor’s duty to report on the adequacy of arrangements to secure VFM in the year of account with a requirement to report on financial sustainability, which will involve commenting on the assumptions underlining an authority’s medium-term financial plans. Auditors have found this aspect challenging under the current VFM guidance and it will continue to be a challenge under the new Code. The quality of the supporting guidance will be critical in this area.
10. From a regulatory body perspective, the change to the VFM approach appears to make it easier to review the work of the auditors as, under each of the updated criteria, there will be guidance setting out the procedures that auditors will need to undertake. However, there is no conclusion. Instead there will be a commentary that sits within the auditors annual letter which raises questions about what the auditors will be monitored against.

CHAPTER 4 – REPORTING

11. As noted above, we strongly support the separation of the audit report on the financial statements from the annual report, which will include the auditor’s commentary on VFM.
12. The draft Code states that the annual report may be presented at the same time as the audit report on the accounts, or no later than 30 September. We anticipate that auditors will take advantage of the later date, if only to spread the audit effort over a longer period of time to allow for the collection of evidence to support their VFM commentary.

CHAPTER 5 – ADDITIONAL POWERS AND DUTIES

13. We welcome the proposals to introduce measures to speed up responses to objections, but we have some concerns about the additional emphasis placed on auditors’ public reporting on issues, which are already widely known to the public. Public interest reports are resource intensive and the costs are passed on to the audited body. There must be clear evidence that the auditor will add value in publicly reporting on an issue, which is already in the public domain. The guidance issued under the Code will play an important part in this respect and needs to be considered carefully.