

AT/PSP/mb

Local Audit Code and Guidance Team
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By email: LACG@nao.org.uk

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Dear Sir/Madam

NAO Draft Code of Audit Practice

Thank you for the opportunity to comment on the above consultation.

We are supportive of the overall approach and principles of public audit the NAO Code (“the Code”) is based on. However, we believe that it could go further in addressing key risks such as financial sustainability (similar to the approach used by Audit Scotland). We are not convinced that including financial sustainability and governance within the value for money category is an ideal fit and believe that these topics would be better addressed as part of the remit of “wider scope audit” to give the appropriate level of attention to these topics. For example, governance covers topics such as systems, processes, leadership and behaviours which are not directly related to economy, efficiency and effectiveness in the use of resources. Secondly, financial sustainability could be defined more broadly in the context of “wider scrutiny” beyond a focus on going concern.

A VFM conclusion can be difficult to explain to members and the wider public which may contribute to an expectations gap. Extending the audit approach to clarify what is within a wider scope audit may assist. We also note the impact of additional costs of conducting a wider scope audit. This needs greater emphasis and investment to avoid the risk of low pricing affecting audit quality. Highlighting wider audit responsibilities separately may support recognition of the need for investment and an expectation of the need to ensure audit fees are commensurate with responsibilities.

We note a downward pressure on fees through prior PSAA rounds of audit tendering. This risks both reducing the quality of service and competition, as the commercial feasibility of an audit engagement becomes a consideration¹. In this context it is particularly important to clarify the need for wider scope audits, implications and benefits.

The NAO Code’s focus is, understandably, on the auditor. It may assist audited bodies to include more on the expectations of what a good audit looks like for the audited body, for example, what does application of auditing standards look like (see also guides in footnote 1). Additionally, a key message from audited bodies is the importance of auditors knowing their client and understanding their business. We suggest that this core message is more prominent in the Code.

¹ See pages 8 & 15 [ICAS guide to audit tendering in the public sector](#) and page 9 [Evaluating your auditor \(public sector\)](#).


As stated on page 5 of the draft Code “*successful delivery of an audit under the Code is...predicated on the audited body meeting its statutory responsibilities...*” It is important that audited body responsibilities are prominent and explicit, as well as auditor responsibilities. We believe that the importance of audited bodies’ responsibilities needs greater emphasis in the Code. We suggest that the Code could be more specific about what these duties and responsibilities are, how they relate to each part of the audit process and an expectation of what doing this well means. This could also clarify what was not an auditor’s responsibility, i.e. auditors are not providing assurance of the effectiveness of service delivery, are not actively seeking out evidence of fraud, etc.

We suggest that an overall view of respective responsibilities would be more clearly communicated if presented within a separate section on auditors and audited bodies’ responsibilities rather than incorporated within individual chapters. The scope of this could also be broader to bring in corporate governance arrangements, value for money, financial position, duty to prepare accounts which give a true and fair view and other related reports. We stress that for audited bodies, reports not only need to be accessible but understandable and not be dependent on having specialist technical knowledge.

In the current climate financial pressures and commercialisation are increasing complexity in English local authority audits and the levels of public interest and scrutiny are greater than before. We therefore support the greater visibility of joint working in the Code as part of this, however we also suggest that it would be helpful for the Code to broaden its approach to this risk. For example, commercialisation has broader implications around governance (including the level of skills and experience in the audited body’s management, audit committee and the audit team), ethics, public perception and reputation as well as financial exposure.

I hope this is helpful. Please do not hesitate to contact us if you have any questions.

Yours faithfully



Alice Telfer
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