

ICAS response to the NAO

7 March 2024



Code of Audit Practice Consultation



Introduction

The ICAS Public Sector Panel welcomes the opportunity to comment on this consultation. ICAS is a professional body for more than 23,000 members in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Our members work in business, the public sector and accountancy practices ranging from the Big Four to the small practitioner.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires its Boards to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Any enquiries should be addressed to atelfer@icas.com.

Response to detailed questions

Code of Audit Practice Chapter One

Question 1 – Do you agree with the principles of effective co-operation during the handover period where there is a change in the appointed auditor? (The handover period is defined as the period from the date from which the new auditor's appointment takes effect to the date on which the outgoing auditor certifies completion of their audit).

Yes. Maintaining audit quality in the short and longer term is critical. We suggest that the NAO Code (and FRC, as appropriate) includes additional guidance to minimise the key risk areas which could have a negative impact on the level of assurance obtained, especially those affecting subsequent audits.

This would include clarification of the auditor handover process and how it will promote audit quality in the circumstances. Clarifications could include:

- the expected period of cooperation to (to include the post certification period),
- procedures for audit file access where disclaimed audit opinions are issued to support incoming auditor assurance on areas such as opening balances and reserves,
- the handover approach (especially where the new year starts but the old year is incomplete) and responsibilities for VFM opinions,
- situations where the local authority is not producing draft accounts to the required standard or there are difficulties accessing staff/ evidence; and
- setting a clear expectation that both auditors and local authorities are flexible in their approaches to minimise increasing time pressures (notably for incoming auditors).

Code of Audit Practice Chapter Two: for relevant authorities other than local NHS bodies

Question 2 – Do you think that the proposed Code requirements in respect of the 'backstop' dates are sufficient to require and enable auditors to report their opinion at the backstop date, apart from in the exceptional circumstances set out? If not, what needs to be added or strengthened?

Yes we believe these are sufficient.

We are not convinced that exceptional circumstances are helpful at this stage given the aim to resolve the crisis and reset, the gravity of the situation and time period it has extended over. At this point there should have been sufficient time to consider whether the objection could lead to a matter

material enough to affect an audit opinion. If there is continuing uncertainty an option exists for the auditor to qualify based on scope limitation until it is resolved.

Code of Audit Practice Schedules 3 and 4: For relevant authorities other than local NHS bodies and in relation to audit years prior to 2023-24 that are incomplete at the date on which this Code comes into force

Schedule 3

Question 3 – Do you agree that the Code should require auditors to perform a reduced scope of work on proper arrangements to secure VFM on a temporary basis for incomplete audits up to and including 2022-23?

We are not convinced that this would be effective or appropriate in the circumstances when certain risks are elevated, particularly as it dates from an exceptionally financially challenging period including the pandemic in 2020/21 and growing inflation when VFM arrangements are especially important. The existing framework relies on the application of professional judgement and a risk-based approach – this is not being applied as intended and we are uncomfortable with the potential outcomes. Whilst the reduced scope approach offers a more proportionate alternative in exceptional circumstances to support a system reset, it sacrifices accountability of public finances during a risky period. The implications are concerning. If this approach is taken forward, the limitations on judgement, reasons for changing the approach and implications will need explained and explicitly reported for transparency. These will include risks to audit quality, gaps and the risk of reduced accountability at a time of heightened financial risk, as well as reduced consistency of the audit approach over time.

Question 4 – Do you have any comments on the proposals for the reduced scope of proper arrangements set out under the reporting criteria that auditors are required to report for incomplete audits up to and including 2022-23?

Please refer to our response to question 3.

Schedule 4

Question 5 – Do you agree with the approach to enable the auditor to issue a combined commentary as part of a single auditor's annual report for incomplete audits up to and including 2022-23?

Yes.

Code of Audit Practice Chapters 3 and 4: For relevant authorities including local NHS bodies and in relation to audit years from 2023-24 at the date on which this Code comes into force

Chapter Three

Question 6 – Do you agree that auditors should be required to return to the full scope of VFM arrangements work under the three reporting criteria set out under paragraph 3.11 of Chapter Three of the Code from audit year 2023-24 (the year of which the new audit appointments contracts under PSAA's national scheme start)?

Yes.

Question 7 – N/A

Chapter Four

Question 8 - Do you agree that the Code should specify the 30 November as the date by which auditors should issue their auditor's annual report based on the work they have completed so far rather than wait for the audit to be fully completed?

Yes.

General Comments

Question 9 - Are there any other comments you wish to make? Equality Impacts In considering new legislation, public bodies need to ensure that they eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.

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Question 10 - Do you have any comments on whether any of the proposals outlined above could have disproportionate impact, either positively or negatively, on people with protected characteristics or wish to highlight any other potential equality impacts?

Additional points

We would welcome further guidance from the FRC on their audit inspection expectations going forwards and topics such as disclaimed opening balances, reserves, audit handover - the risks to audit firms taking over clients with disclaimed audit opinions and how to manage these risks.



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