



Background

- ▶ Requirement of Local Audit & Accountability Act 2014 Section 21(1)
- ▶ NAO Code of Audit Practice 2015 implies 'reasonable assurance'
 - ▶ Need to plan and conduct risk assessment
 - ▶ Undertake sufficient work against any identified 'significant' risks

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people

Replaces previous two criteria for audited bodies:

1. securing financial resilience; and
2. challenging how they secure economy, efficiency and effectiveness

Sub-criteria and proper arrangements

Sub-Criteria	Proper Arrangements
Informed decision making	Acting in the public interest, through demonstrating and applying the principles and values of sound governance
	Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management
	Reliable and timely financial reporting that supports the delivery of strategic priorities
	Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions
	Managing and utilising assets effectively to support the delivery of strategic priorities
	Planning, organising and developing the workforce effectively to deliver strategic priorities
Working with partners and other third parties	Working with third parties effectively to deliver strategic priorities
	Commissioning services effectively to support the delivery of strategic priorities
	Procuring supplies and services effectively to support the delivery of strategic priorities

Auditor's risk assessment

- ▶ Risk that the auditor will reach an incorrect conclusion on the arrangements (*as opposed to the risk that arrangements are inadequate*)
- ▶ Performed to determine nature and extent of any further work
- ▶ Undertaken only on significant risks
 - ▶ *A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects*

Auditor's risk assessment (2)

- ▶ Documented from sources such as:
 - ▶ Cumulative knowledge of the client (brought forward)
 - ▶ Findings from other areas of the audit
 - ▶ Findings of other inspectorates/regulatory bodies
 - ▶ IA reports
 - ▶ AGS / Annual Report
 - ▶ Risk registers
 - ▶ Board/Committee minutes
 - ▶ Key financial information and reports
 - ▶ Wider knowledge of the sector and developments.
 - ▶ NAO illustrative risks

Potential significant risk - examples

► **Organisational change and transformation:**

- reorganisation/merger; major outsourcing; significant capital projects; debt restructuring

► **Significant funding gaps in financial planning:**

- significance of budget gaps will depend both on the size of the funding gap, and at what point it emerges in the body's medium-term financial plans. Where the body has a significant budget gap in terms of funding, and especially where a significant level of as yet unidentified savings are required to deliver a balanced budget, the auditor should consider the issue as a significant risk.

Potential significant risk - examples

► **Legislative/policy changes:**

- taking on a significant new function as a result of changes in legislation or national policy decisions

► **Repeated financial difficulties, or persistently poor performance:**

- a history of financial difficulty, or persistently poor performance in one or more key service areas with little sign of securing any improvements,

► **Other sources:**

- an independent inspectorate or other review agency identifies significant concerns about the quality of services provided.

Audit work to be undertaken

- ▶ Proportionate
- ▶ To a level sufficient to be clear on the conclusion, and reduce the initial audit risk

Reporting

- ▶ Audit Plan – risk assessment
- ▶ ISA260 – completion of fieldwork, results of work and proposed conclusion
- ▶ Auditor's report – conclusion (by exception)
- ▶ Annual Audit Letter –key findings and conclusion
- ▶ Also may need to consider wider reporting arrangements

Qualified Conclusions

Adverse

- ▶ Weakness in arrangements:
 - ▶ So significant in impact; or
 - ▶ So numerous in aspects of proper arrangements affected

Except for

- ▶ Weaknesses:
 - ▶ Sufficiently significant to report
 - ▶ Limited to specific issue or area

Reporting: Concise summary of the information leading to that conclusion

NAO supplementary information

General briefing for all sub-sectors

Contains:

- ▶ General background
- ▶ Sector financial positions
- ▶ National changes (developments)
- ▶ (annual) Governance Reporting framework, mapped to the relevant VFM sub-criteria
- ▶ Other resources

Information Sources

Item	Location
Local Audit & Accountability Act 2014	http://www.legislation.gov.uk/
NAO	http://www.nao.org.uk/
Code of Audit Practice	http://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf
Guidance and information for auditors	https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/