

Corporate

July 2006



Reporting by auditors

What reports to expect from your auditor under the *Code of Audit Practice 2005* for local government bodies

Introduction

This leaflet tells you:

- about the *Code of Audit Practice 2005* and auditors' responsibilities;
- about changes to the way auditors report; and
- what reports you should expect to receive, their purpose and timing.

Code of Audit Practice 2005

The Audit Commission Act 1998 requires the Commission to prepare a *Code of Audit Practice* which is approved by Parliament. The *Code of Audit Practice* sets out the way in which auditors must carry out their work.

The *Code of Audit Practice 2005* (the Code) was published in March 2005 and applies to audit work that relates to financial years ending on or after 31 March 2006. A copy of the Code can be obtained from the Commission's website at **www.audit-commission.gov.uk**

One of the Commission's main objectives in producing the Code was to encourage better and clearer reporting of the results of audits.

Auditors' responsibilities

Auditors are responsible for carrying out an annual audit in accordance with the Audit Commission Act 1998 and the Code.

The audit is defined by the Code as covering:

- the accounts; and
- the use of resources.

The principal outputs of the audit are an opinion on the accounts, and a conclusion whether the auditor is satisfied that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In supporting these outputs, the Code specifically requires auditors to report to the audited body in such a way as to enable its members/directors and management to understand:

- the nature and scope of the audit work;
- any significant issues arising from auditors' work;
- the nature and grounds for any concerns they have; and
- where appropriate, any action that needs to be taken by the audited body to secure improvement.

Auditors' responsibilities are set out in the Commission's *Statement of Responsibilities of Auditors and of Audited Bodies*, a copy of which is sent to every audited body. It can also be found on the Commission's website at www.audit-commission.gov.uk

Changes to the way auditors report

In order to meet the Commission's objective of encouraging better and clearer reporting of the results of audits, the Code has introduced more specific guidance for auditors on reporting.

As well as establishing some general principles of reporting for auditors to follow, the Code has also made changes to the reports that the audited body can expect to receive.

The main changes are:

- the introduction of an enhanced *Report to Those Charged with Governance* which will cover all the auditor's responsibilities under the Code and will incorporate the report on the audit of the accounts required by professional auditing standards;
- the introduction of the auditor's value for money conclusion which may be unqualified (if the auditor is satisfied with the arrangements), qualified (if the auditor is satisfied but with some exceptions), or adverse (if the auditor is not satisfied with the arrangements), and will appear in the audit report after the opinion on the accounts; and
- the annual audit letter (where issued by the auditor) will become a high-level, concise report covering only the key issues arising from the audit.

For those local government bodies where the Commission has inspection responsibilities, the auditor is not required to issue an annual audit letter. Instead, the auditor will provide information to the relationship manager on the key issues arising from the audit work undertaken. This will enable the relationship manager to prepare and send to the audited body, on behalf of the Commission, an annual audit and inspection letter.

By improving the way in which auditors report the results of their work, the Commission also hopes to enhance the value of local audit work to the audited body.

Reports you should expect to receive, their purpose and timing

| Report | Purpose and timing |
|---|--|
| Audit planning document(s) | To set out how auditors intend to carry out their responsibilities in light of their assessment of risks. The auditor should present the audit planning document(s) to the audit committee or equivalent as soon as possible after the start of the relevant financial year. |
| Reports on individual aspects of audit work | To report, as promptly as possible, the results of matters arising from specific elements or parts of the audit. This may be in the form of a written report, letter or |

| Report | Purpose and timing |
|---|--|
| Report to those charged with governance (may also be known as the annual governance report) | <p>memorandum, or a presentation. Examples might include a report on a specific business risk issue or the use of resources assessment (where applicable).</p> <p>To present the findings, conclusions and recommendations from the audit. The report will cover the audit of the accounts and work on arrangements to secure economy, efficiency and effectiveness in the use of resources. The report will cross-refer to other reports issued during the year, but will not repeat the key issues unless they are likely to result in a qualification of the opinion on the accounts or the value for money conclusion. Where a qualified opinion or conclusion is proposed, the report will explain the form of qualification to be used. The auditor should present the report to the audit committee or equivalent in advance of, and to support, the issue of the audit report and certificate.</p> |
| Audit report and certificate | <p>To formally report on and conclude the audit. Comprises the opinion on the accounts, the regularity opinion (for probation boards), the value for money conclusion, reference to the best value</p> |

performance plan (BVPP) report (for best value authorities), any other matters reported by exception (for example, reference to a public interest report), and the audit certificate which closes the audit. The full audit report and certificate must be published by the audited body with the financial statements.

Annual audit letter

To communicate the key issues arising from the audit to the audited body and key external stakeholders, including members of the public. The annual audit letter will continue to be addressed to all members/directors of the audited body, but it will be a high-level, concise document prepared in clear language and accessible to a wider audience. The issue of the annual audit letter normally marks the end of the audit process.

Annual audit and inspection letter

For local government bodies where the Commission has inspection responsibilities, the auditor will provide information to the relationship manager on the key issues arising from the audit work undertaken. This will enable the relationship manager to prepare and send to the audited body, on behalf of the Commission, an annual audit and inspection letter.

Other reports

In addition to the above reports, section 8 of the Audit Commission Act requires auditors to consider whether they should report, in the public interest, on any matter that comes to their attention during the audit. Auditors may issue a public interest report where they consider a matter is sufficiently important to be brought to the notice of the audited body or the public as a matter of urgency.

Further information

For further information on reporting by auditors, or to discuss the specific reporting arrangements at your audited body, please contact your appointed auditor in the first instance.

Audit Commission
1st Floor, Millbank Tower,
Millbank, London SW1P 4HQ
Tel: 020 7828 1212 Fax: 020 7976 6187
Textphone (minicom): 020 7630 0421
www.audit-commission.gov.uk