

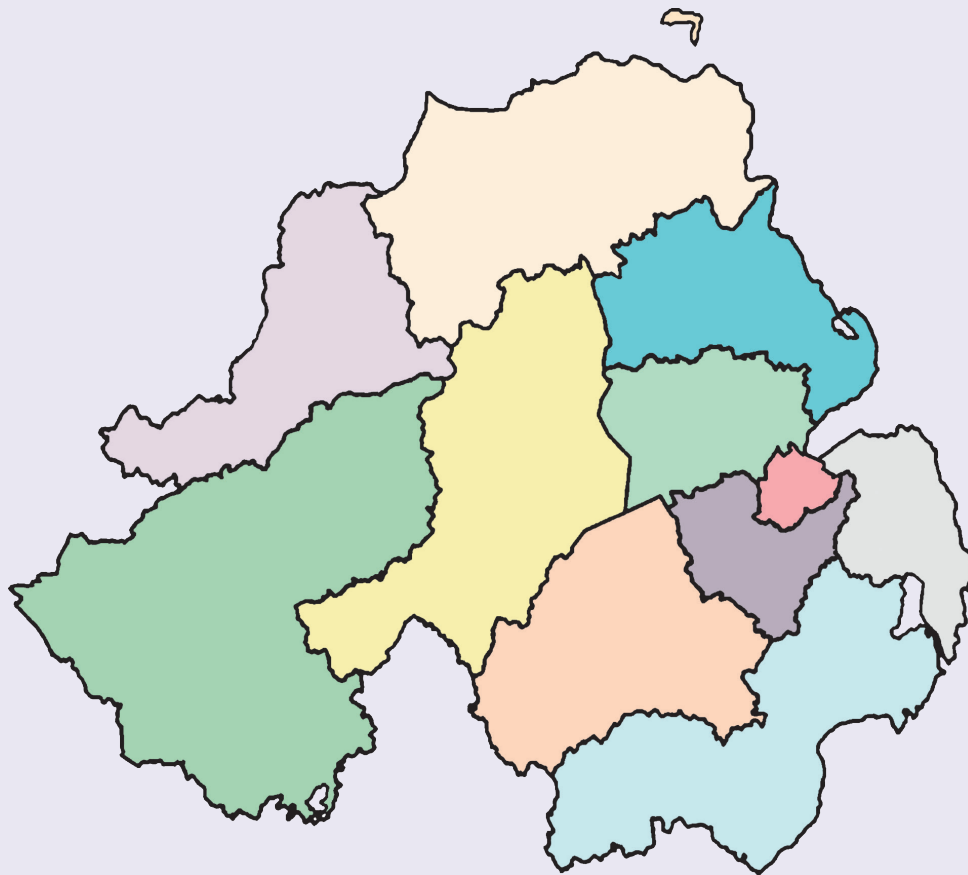


Northern Ireland Audit Office

# Code of Audit Practice 2016

## In relation to the functions of the Local Government Auditor in the audit of Local Government Bodies in Northern Ireland – March 2016

Laid before the Northern Ireland Assembly under Article 5(7) of the Local Government (Northern Ireland) Order 2005 by the Department of the Environment  
Date 14 March 2016







Northern Ireland Audit Office

# Code of Audit Practice 2016

Published 31st March 2016



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# Preface

## The role of external audit in the local government sector

External audit is an essential part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. It involves the Local Government Auditor giving an independent opinion on local government bodies<sup>1</sup> financial statements (referred to in legislation as ‘statement of accounts’) and includes a review and report on aspects of the arrangements put in place by them to ensure the proper conduct of their financial affairs and manage their performance and use of resources. Because of the special accountabilities attached to public money and the conduct of public business, external audit in the local government sector is characterised by three distinct features:

- The Local Government Auditor is appointed independently from the bodies being audited.
- The Local Government Auditor’s work covers not only the audit of financial statements but also includes aspects of corporate governance, arrangements to secure the economic, efficient and effective use of resources, performance improvement, value for money studies and grant certification.
- The Local Government Auditor may report aspects of his/her work to the public and other key stakeholders.

These features are consistent with the ‘principles of public audit’ as defined by the Public Audit Forum which comprises all the national audit agencies in the United Kingdom (UK).

## The roles of the department with regulatory responsibility and the Northern Ireland Audit Office

The department with regulatory responsibility (the Department)<sup>2</sup> is a central government department with statutory responsibilities to regulate the external audit of local government bodies in Northern Ireland.

The Local Government (Northern Ireland) Order 2005 (the Order) provides that the Department may, with the consent of the Comptroller and Auditor General<sup>3</sup>, designate a member of staff of the Northern Ireland Audit Office (the NIAO) as the Local Government Auditor and another as a Deputy Local Government Auditor.

While the designated Local Government Auditor has responsibility for the functions to which this Code relates, operationally much of the work carried out is delegated to others. The Local Government Auditor has made arrangements with the Comptroller and Auditor General and with private audit firms, for members of their staff to assist in conducting his/her functions.

Consequently, in this Code the use of the terms ‘auditor’ and ‘auditors’ apply collectively to:

- the Local Government Auditor;
- employees of the NIAO; and
- any person who provides audit services to the NIAO.

Auditors carry out the statutory responsibilities, and exercise their professional judgement, independently of the Department and the Comptroller and Auditor General.

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1 Local government bodies include councils, joint committees and the Local Government Staff Commission.

2 Currently the Department of the Environment.

3 The Comptroller and Auditor General is an Officer of the Northern Ireland Assembly and is the head of the Northern Ireland Audit Office. The Northern Ireland Audit Office scrutinises public spending on behalf of the Northern Ireland Assembly.

The NIAO has established arrangements for the training and development of audit staff, the provision of advice and support on technical matters and regulating the quality of audit work, which assist the Local Government Auditor in the discharge of his/her audit work.

## Statutory responsibilities and powers of the Local Government Auditor

The statutory responsibilities and powers of the designated Local Government Auditor relating to local government bodies are set out in the Order and the Local Government (Northern Ireland) Act 2014 (the Act). In discharging the Local Government Auditor's specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with a Code of Audit Practice.

### The Code of Audit Practice

Article 5 of the Order requires the Local Government Auditor to prepare, and keep under review, a Code of Audit Practice (the Code) which prescribes the way in which the functions under the Order are to be carried out and embodies *"what appears to the Local Government Auditor to be the best professional practice with respect to the standards, procedures and techniques to be adopted by the Local Government Auditor"*.

The Code must be read in conjunction with any regulations made under Article 24 of the Order as regards the accounts and audit of local government bodies.

Section 102 of the Act provides that performance improvement audit and assessment functions be included in the Code.

The Local Government Auditor is committed to keeping the Code up to date to reflect changes in the operating environment of audited bodies and statutory legislation, as well as auditing standards and practice. He/she may amend the Code where appropriate, in the light of practical experience.

The Code must be approved by a resolution of the Northern Ireland Assembly at intervals of not more than five years. In the intervening period, the Code may be amended by the Local Government Auditor in consultation with councils and other appropriate bodies and persons.

### The Local Government Auditor's approach

The Code covers the audit of all different types of local government body, as the core statutory responsibilities placed on the Local Government Auditor are essentially the same. In line with other UK regions, a principles-based, rather than a rules-based approach has been adopted. As with the extant codes, this has allowed the Local Government Auditor to:

- prepare a concise, high level code applicable to the audit of all local government bodies within the local government audit model established by legislation;
  - provide a clear framework for auditors to meet the statutory duties;
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- ensure that the Code does not quickly become out of date as the regulatory environment continues to evolve; and
- adopt a flexible approach that is responsive to sector developments and to the specific risks identified.

As has been the case, it follows that the amount of work required to perform a good quality audit may increase or decrease in response to the individual circumstances of each local government body. This is something on which the audited body is likely to have a view and auditors should discuss the audit approach with the audited body. Ultimately, though, this must be a matter for the auditors' independent, professional judgement.

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# Chapter One

## Status of the Code, scope and general principles

1.1 This chapter covers the status of the Code, provides details on its application and sets out principles which will underpin the conduct and work of the Local Government Auditor in discharging his/her statutory duties.

### Status of the Code

1.2 The Local Government Auditor is required to prepare the Code under Article 5(3) of the Order and to lay it before the Northern Ireland Assembly for approval. The Code was laid before the Northern Ireland Assembly on 14 March 2016 and comes into effect from 1 April 2016. It replaces the Code that has been in effect from 1 April 2011.

1.3 The Code applies to the audit of all local government bodies in relation to their financial statements from the financial year 2015-16 onwards and until the Code is replaced.

1.4 The Code also applies to the audit and assessment of councils' performance improvement duties. These duties were to be phased in over three years and began in the financial year 2015-16.

### Scope of the Code

1.5 The Code prescribes the way in which the Local Government Auditor, as outlined in Article 4<sup>4</sup> of the Order, should carry out his/her functions under the

Order and the Act. As with any code that attempts to cover a wide variety of circumstances, the application of the Code in any particular case will depend on the specific circumstances, any relevant supplementary guidance and on the Local Government Auditor's assessment of what is reasonable and appropriate in those circumstances. All the provisions of the Code are to be read and applied with that necessary qualification.

### Principles

#### *Wider scope*

1.6 Because of the special accountabilities attached to public money and the conduct of public business, the scope of external audit in local government is extended to cover not only the truth and fairness of the financial statements, but also:

- arrangements for securing economy, efficiency and effectiveness in the use of resources; and
- arrangements to secure continuous performance improvement in the exercise of council functions.

1.7 The Local Government Auditor does not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in

4 As amended by the Local Government Act (Northern Ireland) 2014.

# Chapter One

accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

## *Integrity, objectivity and independence*

- 1.8 Auditors should carry out their work with integrity, objectivity and independence. This should be done in accordance with the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the International Federation of Accountants and the International Organisation of Supreme Audit Institutions. Auditors are also subject to the ethical codes of their professional institutes - such as the Chartered Institute of Public Finance and Accountancy and Chartered Accountants Ireland.
- 1.9 Auditors exercise their professional judgement and act independently of both the Department and the audited body. Auditors should be, and should be seen to be, impartial and independent. Accordingly, they should not carry out any other work for an audited body, if that work would impair their independence in carrying out any of the Local Government Auditor's statutory duties, or might reasonably be perceived as doing so.

## *Transparency and public reporting*

- 1.10 The Local Government Auditor has a range of means at his/her disposal, set out in the relevant legislation, by

which his/her findings may be reported publicly. The Local Government Auditor should report on a timely basis without fear or favour, using his/her professional judgement on the most appropriate and effective means of reporting.

## *Professionalism and proportionality*

- 1.11 Auditors should carry out their work in compliance with the requirements of the Code which itself requires compliance, where applicable, with relevant professional standards issued by the Financial Reporting Council and relevant quality control standards. The work should be risk-based and proportionate. It should be designed to meet the Local Government Auditor's statutory responsibilities, with auditors applying their professional judgement to tailor their work to the circumstances in place at the audited body and the audit risks to which they give rise. Auditors should ensure that each audit is conducted economically, efficiently, effectively and in as timely a way as possible.
- 1.12 In carrying out their work, auditors should exercise professional scepticism. They should obtain and document such information and explanations as they consider necessary to provide sufficient, appropriate evidence in support of the Local Government Auditor's judgments. Auditors should meet the requirements of the legislation, the Code and, where applicable, professional standards.

- 1.13 There may be circumstances in which it appears to the auditor that aspects of the Code need to be applied in a certain way in order to meet the specific circumstances of certain bodies, for example smaller local government bodies because of the nature of their business or the relatively small amounts of public money that they control. In such circumstances auditors will apply their professional judgement.

### *Coordination and integration*

- 1.14 Local government bodies can operate, commission and deliver services in a range of partnerships and other forms of joint working or contracts with other public, private or third sector bodies. In meeting his/her statutory duties the Local Government Auditor should consider how best to obtain assurance over such arrangements.
- 1.15 Auditors should establish effective co-ordination arrangements with internal audit and seek to place reliance on the work of internal audit whenever possible.
- 1.16 Auditors should adopt an integrated approach, where the knowledge gathered and work carried out in support of each of the Local Government Auditor's statutory and reporting obligations informs his/her judgments and conclusions as a whole.

### *Constructive approach*

- 1.17 Auditors should adopt a constructive and positive approach to their work.

They should share and discuss the audit plan at an early stage with the audited body. Auditors, in their support and encouragement of worthwhile change, should consider carefully the practical and resource implications for the audited body when framing recommendations arising from the audit.

### *Data security and confidentiality*

- 1.18 Auditors should familiarise themselves and comply with statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of data, particularly personal data received or obtained during the course of their audit work.



## Chapter Two

# Audit of the financial statements

- 2.1 This chapter sets out how the Local Government Auditor's statutory duties (see Schedule 1) in respect of the audit of the financial statements of local government bodies are addressed.
- 2.2 The auditor of a body that meets the qualifying conditions of a smaller body should apply any modified procedures as set out in Chapter Seven of the Code.

### Responsibilities of the audited body

- 2.3 The specific responsibilities of audited bodies regarding the production and reporting of financial statements and other information depend on relevant legislation, regulations and any other requirements that may be placed upon them. All audited bodies are expected to have effective corporate governance arrangements to deliver their objectives. To this end, the publication of the financial statements, is an essential means by which an audited body accounts for its stewardship and use of public money at its disposal.
- 2.4 The precise form and content of the audited body's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place for that particular type of audited body and any additional guidance issued in support of the accounting and reporting framework.
- 2.5 The audited body may also be required to prepare a return to facilitate the

preparation of HM Treasury's Whole of Government Accounts.

### Responsibilities of the Local Government Auditor

- 2.6 To meet the duties in respect of the audit of the financial statements, auditors should comply with current auditing standards, as amended from time to time, having regard to any other relevant guidance and advice issued by the Financial Reporting Council, including Ethical Standards.
- 2.7 Auditors should undertake work to support the provision of the Local Government Auditor's audit report to the audited body. In respect of the audit of the financial statements, the Local Government Auditor's report should include the following components:

#### *Opinion on the audited body's financial statements*

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the year in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

## Chapter Two

### *Opinion on other matters*

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

### *Opinion which can be reported by exception*

- There is a wide range of matters, which can be reported by exception and these are outlined in Schedule 2 of the Code.

2.8 Other information published together with the audited financial statements covers material that the audited body chooses, or is required, to provide alongside its financial statements, for example the annual governance statement. In reading the information given with the financial statements, auditors should take into account the knowledge of the audited body, including that gained from carrying out audit work in relation to the body's proper arrangements for securing economy, efficiency and effectiveness in its use of resources and performance improvement.

## Chapter Three

# The Local Government Auditor's work on economy, efficiency and effectiveness

3.1 This chapter addresses the Local Government Auditor's statutory duties in respect of the audited body's proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. It also outlines the Local Government Auditor's statutory power in relation to the undertaking of comparative and other studies of local government bodies designed to lead to improvements in economy, efficiency and effectiveness in the provision of services. Details of these duties are set out in Schedule 1 of this Code.

3.4 In preparing its governance statement, the audited body will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This should include a description of the arrangements for ensuring that its functions and services are delivered in a manner which represents the best use of resources, having regard to a combination of economy, efficiency and effectiveness.

### Responsibilities of the audited body

3.2 Local government bodies are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives, while safeguarding and securing value for money from the public funds and other resources at their disposal. It is their responsibility to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance. The adequacy and effectiveness of the system of internal control should be regularly reviewed.

3.3 As part of the material published in the governance statement within its financial statements, the audited body is required to bring together commentary on its governance framework and how this has operated during the period.

### Responsibilities of the Local Government Auditor

3.5 The Local Government Auditor has a statutory responsibility to satisfy himself/herself that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

3.6 In meeting this responsibility, auditors should ensure that sufficient work is undertaken to be able to satisfy themselves as to whether, in their view, the audited body has put proper arrangements in place that support the achievement of value for money. In carrying out this work, the auditors are not required to satisfy themselves that the audited body has achieved value for money during the reporting period. However, should evidence of poor value for money come to auditors attention

## Chapter Three

during the course of an audit, they should consider the implications of this for their work.

- 3.7 The auditors' work should be underpinned by consideration of the proper arrangements the audited body is expected to have in place. This should be based on any relevant requirements, guidance and good practice in the areas that they decide to review.
- 3.8 Auditors should take into account their knowledge of the local government sector as a whole, and the audited body specifically, to identify any risks that, in their judgement, have the potential to cause the Local Government Auditor to reach an inappropriate conclusion on the audited body's proper arrangements. An understanding of the sector includes the relevant regulatory framework, which may influence the auditors' assessment of the risk.
- 3.9 The auditors' work should be designed to enable the Local Government Auditor to form a view of the arrangements management has made and report his/her conclusion to those charged with governance that the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant financial year.
- 3.10 In addition, the Local Government Auditor may and, if required by the Department, undertake comparative

and other studies designed to enable him/her to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies.



# Chapter Four

## The Local Government Auditor's work on performance improvement

4.1 This chapter describes how the Local Government Auditor will exercise his/her functions relating to the performance improvement duties of councils (see Schedule 1 of this Code).

### Responsibilities of the audited body

4.2 Councils have a general duty to make arrangements to secure continuous improvement in the exercise of their functions and to set improvement objectives for each financial year. Councils will be required to gather information to assess improvements in their services and to issue a report annually on their performance against indicators which they have either set themselves or that have been set by departments. Councils' performance improvement plans, and the arrangements made to deliver on those plans, will be audited by the Local Government Auditor.

### Responsibilities of the Local Government Auditor

4.3 As directed by the Department, the Local Government Auditor has a statutory responsibility for each financial year to determine and report on whether:

- a council has discharged its duties in relation to improvement planning, published the required improvement information and the extent to which

the council has acted in accordance with any guidance issued with the Department in relation to those duties; and

- a council is likely to comply with its statutory requirements to make arrangements to secure continuous improvement in the exercise of its functions.

4.4 To discharge his/her functions, the Local Government Auditor will:

- undertake improvement information and planning audits, to ascertain whether a council has discharged its duties for publishing improvement planning and performance information;
- carry out improvement assessments, to determine whether a council is likely to comply with its statutory requirements to make arrangements to secure continuous improvement in the exercise of its functions; and
- report on improvement audit and assessment work.

4.5 The Local Government Auditor will exercise his/her improvement audit and assessment functions:

- consistently between councils;
- proportionately so as not to impose an unreasonable burden on councils; and

## Chapter Four

- with a view to assisting councils to comply with their duties in relation to securing continuous improvement.

- 4.6 In certain circumstances, the Local Government Auditor may decide, or be requested by the Department, to carry out a special inspection of a council's compliance with its duties in relation to securing continuous improvement.
- 4.7 Each year when carrying out performance improvement assessments, auditors will assess whether councils have given due regard to sustainability and other aspects of improvement in their arrangements to secure continuous improvement.
- 4.8 If the Local Government Auditor thinks it appropriate in the light of a performance improvement audit, assessment or special inspection, he/she may make recommendations to the Department to provide assistance to a council or give it a direction. The Local Government Auditor will clearly outline the rationale for making such recommendations, based on improvement audit, assessment or inspection findings.

# Chapter Five

## Reporting the results of the Local Government Auditor's work

5.1 This chapter addresses the Local Government Auditor's statutory duties for reporting the results of the audit, as summarised within Schedule 1 of this Code.

5.2 The Local Government Auditor should report the results of his/her work using a range of outputs at the appropriate point in the audit process, as set out below.

with management and those charged with governance.

### Planning the audit

- An audit planning document sets out how the Local Government Auditor intends to carry out his/her duties in respect of the annual accounts in accordance with auditing standards. In addition to planned work on the audit of the annual accounts, the audit planning document should encompass the auditors planned work to meet their duties in respect of:
  - the audited body's arrangements to secure value for money through the economic, efficient and effective use of its resources; and
  - securing continuous improvement in the exercise of their functions.

Auditors should discuss their risk assessment and planned approach, as set out in the audit planning report,

### Completion of audit fieldwork

- A report to those charged with governance which should communicate to the audited body more detailed matters arising from all audit work performed in the year. The report will include those additional points which the auditor views as offering the Chief Financial Officer the opportunity to improve the management of the audited body.

### Conclusion of the audit

- An audit report which should cover the results of the auditors work on the annual accounts as set out at paragraphs 2.6 to 2.8 of the Code. The audit report should also include, by exception, any report by the Local Government on a range of additional matters as appropriate.
- An audit completion certificate – the Local Government Auditor should certify the completion of the audit. This usually forms part of the audit report. The effect of the certificate is to close the audit. This marks the point when the Local Government Auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged. There may be occasions when

## Chapter Five

the Local Government Auditor is able to issue the audit report but cannot certify completion of the audit because certain, non-material issues remain outstanding. In such circumstances, the Local Government Auditor should consider whether to issue his/her audit report ahead of certifying closure of the audit.

- An annual audit letter which should provide a clear, readily understandable commentary on the results of both the financial statement audit and the work on proper arrangements. It should also highlight any issues that the Local Government Auditor wishes to draw to the attention of the public. The Local Government Auditor should issue the annual audit letter as soon as possible after he/she has certified that the audit is complete.<sup>5</sup> Whilst it is the responsibility of the council to publish the annual audit letter, the Local Government Auditor may publish each annual audit letter on the NIAO website to enhance the transparency of public reporting.
- An audit and assessment report will be issued to the Chief Executive of each council and the Department. The report will state whether the Local Government Auditor believes that the council is likely to comply with the statutory duty to make arrangements to secure continuous improvement during the current financial year; he/she may also comment on whether the authority is likely to comply in subsequent years.
- Annual improvement reports - the Local Government Auditor will publish an annual improvement report on each council which summarises all of the work done in relation to the performance and improvement duties. These will be also be published on the NIAO website.
- The Local Government Auditor's annual report will be issued to the Chief Executive of each council and the Department after all audits have been completed. The main objective is to provide an overview of the Local Government Auditor's functions in that year and share key messages from all audits performed during the year. This may also be published on the NIAO website.

### Any stage during the audit

5.3 Auditors may progress the actions and outputs identified below at any stage during their work:

- communication on specific elements of their work – auditors should maintain regular communication with the audited body to ensure that emerging findings are raised on a timely basis, in the form and at the level within the audited body, they judge appropriate.

<sup>5</sup> Publication of the annual audit letter by a local government body is a statutory requirement under the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, Part 5, section 17.

- reports in the public interest – the Local Government Auditor should consider whether, in the public interest, he/she should report on any matter that comes to his/her notice so that it is brought to the attention of the audited body and the public:
  - When preparing and issuing reports in the public interest, the Local Government Auditor should tailor his/her approach to the urgency and significance of his/her concerns. The Local Government Auditor should make a report during the audit if he/she considers the matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency.
  - If the Local Government Auditor issues a report in the public interest, this should be referred to in the audit report and the annual audit letter.
- written recommendations – the Local Government Auditor should consider whether to use the powers the Order provides to make written recommendations to the audited body which need to be considered by the body and responded to publicly. Where the Local Government Auditor considers it necessary to make such recommendations, these can be made during or at the end of the audit and can be included, where relevant, within other written outputs from the audit ( including the audit report), or they may be the subject of a specific report to the audited body.
- special investigations - if the Local Government Auditor is of the opinion that a council may fail to comply with its performance improvement duties, or if the Department directs the Local Government Auditor to carry out an inspection, then the Local Government Auditor may carry out a special inspection of the council. Such inspections may relate to some or all of a council's functions. Before deciding whether to inspect, the Local Government Auditor must consult the Department.



## Chapter Six

# The Local Government Auditor's additional powers and duties

- 6.1 This chapter addresses the Local Government Auditor's use of certain additional powers and duties, as summarised in Schedule 1.
- 6.2 In exercising any of the additional powers and duties, the Local Government Auditor should tailor his/her approach to the particular circumstances of the matters under consideration.
- 6.3 Where any representations are made to the Local Government Auditor, or relevant matters otherwise come to his/her attention, the Local Government Auditor should consider whether the matter needs investigation and action under these additional powers and duties or whether it can be considered more effectively within planned work programmes and reporting arrangements under the Local Government Auditor's other audit engagement responsibilities.
- 6.4 In considering whether to exercise any of his/her additional powers and duties, and in determining the time and resource to be spent on dealing with such matters the Local Government Auditor should consider the relevant requirements of the Order and:
- the significance of the subject matter;
  - whether there is wider public interest in the issues raised;
  - whether the substance of the matter has been considered previously by the Local Government Auditor;
- the costs of dealing with the matter, bearing in mind that these are borne by the taxpayer; and
  - in the case of objections, the rights of both those subject to objection and of the objector.
- 6.5 The Local Government Auditor is a prescribed person under the Public Interest (Prescribed Persons) (Amendment) Order (Northern Ireland) 2014 and can consider any relevant concerns from whistleblowers and may investigate further.

## Chapter Seven

# Smaller local government bodies

7.1 This Chapter sets out the approach to be adopted for the audit of smaller local government bodies. Smaller local government bodies are defined in the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 (the Regulations) as:

- a committee of a council for which accounts are separately kept;
- a joint committee of two or more councils; or
- a local government body which
  - is an established body, which meets the qualifying condition for the year concerned and for either of the two preceding years<sup>6</sup>;
  - is a newly established body, which meets the qualifying condition for its first year.

### Responsibilities of the local government auditor (smaller local government bodies)

7.3 The Local Government Auditor's approach for the audit of smaller government bodies will be determined taking due consideration of the principles within this Code and particularly consideration of proportionality

### Responsibilities of the smaller local government body

7.2 A smaller local government body should prepare a statement of accounts each year in accordance with proper accounting practices, the Regulations and in the form directed by the Department. The form of the statement of accounts is determined by the Department.

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<sup>6</sup> The current qualifying condition set by the Department for a smaller local government body is £2.5 million.



# Chapter Eight

## The Local Government Auditor's rights of access to third parties

8.1 This section sets out how the Local Government Auditor fulfils the statutory function which relates to access to third parties, as summarised in Schedule 1.

8.2 The Code aims to ensure that the statutory access rights provided to the auditors, to documents which are held by third parties and relate to local government bodies, are exercised in the same professional manner as access rights provided to documents held by local government bodies. This is to ensure that sufficient information is obtained for the purposes of the examination being undertaken, without placing unnecessary burden on those subject to access.

8.3 The Code concerns the relations between the auditors, third parties that are subject to their right of access, and local government bodies.

### Notification

8.4 Auditors will normally consult local government bodies on their intention to exercise statutory access rights to documents held by third parties. The need for consultation may not apply in exceptional circumstances (see under Exceptional circumstances below).

### Explanation of work

8.5 Auditors will explain the basis of the decision to exercise their right of access to documents held by third parties,

set out the purpose and scope of the intended examination, and consider comments from the third party and the local government body. This will include cases where the Department or the Local Government Auditor has statutory powers to undertake comparative and other studies to enable him/her to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies.

### Purpose of Access

8.6 This Code makes clear that:

- statutory access to third party documents is needed to enable the Local Government Auditor to carry out any of his/her statutory duties, including comparative and other studies when required by the Department or the Local Government Auditor to undertake this work;
- auditors access will be limited to papers and records which relate to the local government body, not to the business of the third party; and
- the Local Government Auditor will not be seeking to conduct a study of the business of the third party.

### Extent of work

8.7 Auditors apply professional auditing standards and professional judgement

## Chapter Eight

when determining the level of work necessary to complete an investigation. In doing so, the auditors seek to use the most efficient techniques to obtain the evidence required and minimise the impact on the body concerned. Where possible, the auditor will place reliance on relevant work completed by other parties – for example, by working with or making use of the work of internal audit or other auditors.

- 8.8 The Local Government Auditor anticipates no significant increase in the overall volume of existing local government audit work from the exercise of such rights.

### Facilitation of access

- 8.9 Third parties will provide auditors, with access to all such documents as they may reasonably require, at all reasonable times.

### Reporting back

- 8.10 Auditors will inform the third party and the local government body of the results of their work within a reasonable period after completion and take into account comments on factual accuracy and fair presentation.

### Resolution of issues

- 8.11 Local government bodies that have issues with the exercise of the statutory

access rights to documents held by third parties should seek to resolve them with their auditor. Where a third party which has been subject to access has concerns about the approach taken, it will similarly be able to discuss such concerns with the auditor.

### Exceptional circumstances

- 8.12 There may be exceptional circumstances that will override the arrangements set out above, such as alleged fraud or impropriety.

### Restrictions on disclosure of information by the Local Government Auditor

- 8.13 Article 27 of the Order places restrictions on the Local Government Auditor regarding the disclosure of information obtained during the course of his/her statutory work, relating to third parties.

# Schedule 1

## The Local Government Auditor's statutory responsibilities in relation to local government bodies

Schedule 1 aims to provide an accessible view of the Local Government Auditor's responsibilities. To achieve this, the schedule summarises (rather than reproduces) relevant sections of both the Order and the Act. The schedule is not intended to be a substitute for consideration of the detailed requirements of either.

<b>Schedule 1</b>	
<b>The Local Government Auditor's statutory responsibilities</b>	
<b>Local government bodies</b>	<b>Statute</b>
<b>Audit scope</b>	
To be satisfied that the accounts comply with statutory requirements	Article 6(1)(a)(b) Local Government (Northern Ireland) Order 2005
To be satisfied that proper practices have been observed in compiling the accounts.	Article 6(1)(c) Local Government (Northern Ireland) Order 2005
To be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources.	Article 6(1)(d) Local Government (Northern Ireland) Order 2005
To be satisfied that a council has discharged its performance improvement duties and acted in accordance with any guidance.	Section 93 Local Government (Northern Ireland) Act 2014
To determine whether a council is likely to comply with its performance improvement duties in the financial year and in subsequent financial years.	Section 94 Local Government (Northern Ireland) Act 2014

# Schedule 1

<b>Schedule 1</b>	
<b>The Local Government Auditor's statutory responsibilities</b>	
<b>Local government bodies</b>	<b>Statute</b>
<b>Reporting</b>	
To comply with the Code of Audit Practice prepared by the Local Government Auditor and approved by the Northern Ireland Assembly.	Article 6(2) Local Government (Northern Ireland) Order 2005
To consider whether, in the public interest, to report on any matter that comes to the attention of the auditor so that it may be considered by the body concerned or brought to the attention of the public.	Article 9 Local Government (Northern Ireland) Order 2005
To certify the completion of the audit.	Article 10(1)(a) Local Government (Northern Ireland) Order 2005
To express an opinion on the accounts.	Article 10(1)(b) Local Government (Northern Ireland) Order 2005
To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	Article 12(2) Local Government (Northern Ireland) Order 2005
To issue an 'audit and assessment report' each financial year in respect of each council certifying whether a council has discharged its performance improvement duties and acted in accordance with any guidance. In addition, the report will include a statement from the Local Government Auditor stating whether or not he/she believes that the council is likely to comply with its performance duties.	Section 95 Local Government (Northern Ireland) 2015 Act
To publish an 'annual improvement report' in relation to each council which summarises or reproduces the Section 95 report and the results of any special inspection work	Section 97 Local Government (Northern Ireland) 2015 Act
For each financial year, prepare a report on the exercise of the Local Government Auditor's functions in that year and send a copy of the report to each council and the Department.	Article 4(5) Local Government (Northern Ireland) Order 2005

<b>Schedule 1</b>	
<b>The Local Government Auditor's statutory responsibilities</b>	
<b>Local government bodies</b>	<b>Statute</b>
<b>Additional powers and duties</b>	
Each year, prepare a report as to the exercise of the Local Government Auditor's functions and send a copy of the report to each council and the Department.	Article 4 Local Government (Northern Ireland) Order 2005
To give interested persons the opportunity to raise questions with the Local Government Auditor about the accounts and for the Local Government Auditor to consider and decide upon objections received in relation to the accounts.	Articles 17 and 18 Local Government (Northern Ireland) Order 2005
To consider whether to apply to the court for a declaration that an item of account is contrary to law.	Article 19 Local Government (Northern Ireland) Order 2005
To consider whether there has been a loss or deficiency caused by a failure to account or wilful misconduct.	Article 20 Local Government (Northern Ireland) Order 2005
To consider whether to make an application for judicial review.	Article 21 Local Government (Northern Ireland) Order 2005
To perform an extraordinary audit of the accounts of any local government body if, at any time, it is directed by the Department.	Article 22 Local Government (Northern Ireland) Order 2005
To audit the accounts of a local government officer where that officer is in receipt of money or other property on behalf of a local government body or for which he/she ought to account to that body.	Article 23 Local Government (Northern Ireland) Order 2005
To make arrangements, if so required by a local government body, for certifying claims, returns or accounts in respect of certain grants or subsidies.	Article 25 Local Government (Northern Ireland) Order 2005
To undertake comparative and other studies designed to enable him/her to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies and to publish the results and recommendations.	Article 26 Local Government (Northern Ireland) Order 2005
<b>Access rights</b>	
To have access at all reasonable times to every document relating to a local government body.	Article 7 Local Government (Northern Ireland) Order 2005
To restrict disclosure by the Local Government Auditor of information obtained during the course of their work to third parties.	Article 27 Local Government (Northern Ireland) Order 2005

## Schedule 2

### Audit report: Inclusion of additional matters by exception

Schedule 2 aims to provide an accessible view of the Local Government Auditor's responsibilities in relation to a wide range of matters which can be reported by exception. To achieve this, the schedule summarises (rather than reproduces) relevant sections of the Act and Departmental guidance. The schedule is not intended to be a substitute for consideration of the detailed requirements of either.

#### **Schedule 2**

#### **Audit report: Inclusion of additional matters by exception**

If the Annual Governance Statement does not reflect compliance with proper practices, as required by the Department.

Matters reported in the public interest under Article 9 of the Local Government (Northern Ireland) Order 2005.

Any recommendations made to the audited body under Article 12 of the Local Government (Northern Ireland) Order 2005.

Application to the High Court for a declaration that an item of account is contrary to law under Article 19 of the Local Government (Northern Ireland) Order 2005.

Certification of a loss caused by a failure to account or wilful misconduct under Article 20 of the Local Government (Northern Ireland) Order 2005.

Application for judicial review under Article 21 of the Local Government (Northern Ireland) Order 2005.

# Glossary

Term	Definition
<b>Accounting standards</b>	Accounting standards are authoritative statements of how transactions and balances are to be recognised, measured, presented and disclosed in financial statements.
<b>Act 'the'</b>	The Local Government (Northern Ireland) Act 2014
<b>Annual audit letter</b>	Report issued by the Local Government Auditor to an audited body, which summarises the audit work carried out in the period, the Local Government Auditor's opinions or conclusions (where appropriate) and significant issues arising from his/her work.
<b>Annual governance statement</b>	The Order requires local government bodies to ensure that their financial management is adequate and effective and that it has a sound system of internal control. It provides that a local government body shall conduct a review each financial year on the effectiveness of its system of internal control and that a statement shall be prepared in accordance with proper practices. The Department of Environment in Circular LG/04/08 has defined proper practices for a statement of internal control as the Annual Governance Statement prepared in accordance with CIPFA's Delivering Good Governance in Local Government: Framework (2007) and Addendum (2012).
<b>Annual report</b>	The annual report describes the aims and achievements of an audited body during a particular year. While not required to do so, local government bodies may provide an annual report alongside their financial statements.
<b>Audited body</b>	A body to which the Department of the Environment is responsible for assigning the local government auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'members' and 'those charged with governance').
<b>Auditor(s)</b>	This term includes the terms 'auditor' and 'auditors' collectively to: <ul style="list-style-type: none"> <li>- the Local Government Auditor;</li> <li>- employees of the Northern Ireland Audit Office; and</li> <li>- any person who provides audit services to the NIAO.</li> </ul>
<b>Auditing standards</b>	Standards issued by the Financial Reporting Council which the Local Government Auditor is required to comply with when conducting an audit of the financial statements.
<b>Code (the)</b>	The Code of Audit Practice issued by the Local Government Auditor and approved by the Northern Ireland Assembly.

# Glossary

Term	Definition
<b>Consolidated accounts</b>	Financial statements of a group in which the assets, liabilities, reserves, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.
<b>Corporate governance</b>	The system of structures, rights, duties and obligations by which organisations are directed and controlled.
<b>The Department</b>	The central government Department with statutory responsibilities to regulate the external audit of local government bodies in Northern Ireland and to promote improvement in the provision of services by local government bodies.
<b>Ethical Standards</b>	Standards issued by the Financial Reporting Council which contain basic principles that apply to the conduct of audits and with which external auditors are required to comply, except where otherwise stated in the standard concerned.
<b>External audit</b>	The audit of the accounts of an audited body, which comprises the audit of the financial statements and other work to meet the Local Government Audit's statutory responsibilities under the Local Government (Northern Ireland) Order 2005. In addition, it includes performance improvement audits and assessments under Part 12 of the Local Government (Northern Ireland) Act 2014.
<b>Financial Reporting Council (FRC)</b>	The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.
<b>Financial statements (also see Statement of Accounts)</b>	The financial statements or Statement of Accounts in the prescribed form.
<b>Internal audit</b>	Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisations objectives. Local government bodies are required to have an internal audit function.
<b>Local government bodies</b>	A council or a committee of a council for which accounts are separately kept, or a joint committee of two or more councils (as defined in Article 3(2) of the Order).



<b>Term</b>	<b>Definition</b>
<b>Members</b>	The elected or appointed members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'those charged with governance' and 'audited body').
<b>NIAO</b>	Northern Ireland Audit Office.
<b>Order (the)</b>	The Local Government (Northern Ireland) Order 2005
<b>Professional standards</b>	In the context of the Code, professional standards comprise auditing standards, ethical standards and quality standards – these are defined in this glossary.
<b>Quality control standards</b>	International Standard on Quality Control 1 issued by the International Auditing and Assurance Standards Board (IAASB) or any other relevant standards with which the Local Government Auditor is required to comply.
<b>Regulations</b>	Secondary legislation made by the Department of the Environment using powers conferred by the Northern Ireland Assembly.
<b>Report by exception</b>	Reporting only when information or the results of the Local Government Auditor's work is materially inconsistent with his/her understanding of the body or the requirements placed on the body.
<b>Should</b>	The Code of Audit Practice has been approved by the Northern Ireland Assembly. It has the status of secondary legislation and the Local Government Auditor's compliance with the Code is mandatory. The use of 'should' highlights a specific requirement placed on the Local Government Auditor within the Code.
<b>Studies for improving economy, efficiency and effectiveness</b>	Under Article 26 of the Order, the Local Government Auditor may, and if required by the Department, shall, carry out 'value for money' studies in local government, to enable him/her to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies.
<b>Statement of accounts (also see Financial Statements)</b>	The annual statement of accounts or financial statements in the prescribed form.
<b>Third Sector</b>	The third sector includes voluntary and community organisations, social enterprises and cooperative and mutual organisations.
<b>Those charged with governance</b>	The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.

# Glossary

Term	Definition
<b>Value for money</b>	<p>Making the best use of resources through:</p> <ul style="list-style-type: none"> <li>• economy – minimising the cost of resources used or required;</li> <li>• efficiency – obtaining an optimal relationship between the resources used and the outputs/impacts achieved; and</li> <li>• effectiveness – achieving alignment between intended and actual outcomes.</li> </ul>
<b>Whole of Government Accounts</b>	<p>The Whole of Government Accounts (WGA) are the consolidated financial statements for the whole of the United Kingdom public sector, showing what the United Kingdom government spends and receives and what it owns and owes.</p>





Published and printed by CDS

CDS 152180

