

Code of Audit Practice

Briefing on changes to value for money audit – West Midlands Fire and Rescue Authority

October 2020



National Audit Office's new Code of Audit Practice

There are three main changes arising from the NAO's new approach:

A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness

More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach

The replacement of the binary (qualified / unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The new key criteria

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- identifies the pressures it is facing and builds these into its plans;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of strategic and statutory priorities and maintain services;
- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

The new key criteria

Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

- monitors and assesses risk and how the body gains assurance over the operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures an effective budgetary control system in communicating accurate and timely management information, supports its statutory financial reporting requirements and ensures that corrective action is taken where needed;
- ensures appropriate scrutiny, challenge and transparency on decision making; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member/non-executive behaviour (such as gifts and hospitality or declarations of interests).

The new key criteria

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- how management cost and performance information has been used to assess performance to identify areas for improvement;
- how the body evaluates the services it provides to assess performance and identify areas for improvement;
- how the body ensures it delivers its role within significant partnerships, monitors the performance of significant partnerships, and ensures action is taken where necessary to improve; and
- where the body commissions or procures services, how the body monitors the performance of the service and assesses whether it has been delivered in line with what it procured and ensures that this is done in accordance with laws and regulations.

Reporting requirements

Reporting

The Auditor's Annual Report replaces the Annual Audit Letter and will be published at the same time as the Auditor's Report on the Financial Statements.

In undertaking their work, auditors should consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

The Code requires that where the auditor has concluded that there is a significant weakness in a body's arrangements, they should report this to the body and support it with a recommendation for improvement setting out:

- their judgement on the nature of the weakness they have identified;
- the evidence on which their view is based;
- the impact on the local body; and
- the action the body needs to take to address the weakness.

Implications of the new approach

We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.

The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level.

Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

Our estimate is that for your audit, this will result in an increased fee of £6,500. This in line with increases we are proposing at all our public sector audits.

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