

## AUDITING

### FOREWORD

- 1 The specific requirements of this SoPP are ***in addition*** to those set out in the general statements on '*Standards of Professional Practice*' on pages 1 to 4 inclusive. In particular, the attention of members is drawn to the section on *Standard of Care* at page 2. The guidance on objectivity and independence should be considered in conjunction with the separate SoPP on Ethics.
- 2 Ensuring that all audit work, both internal and external, is carried out professionally is important in all parts of the public services and in the private sector. Given public expectations and perceptions this requirement is greatly enhanced where auditors are considering the use of public money.
- 3 The public relies on professional accountants for the integrity of the finance function in its widest sense. This includes a dependence on financial information for:
  - Ensuring efficient and effective use of resources.
  - Demonstrating sound internal control.
  - Assisting in sound management decision making.
  - Demonstrating accountability.

Audit has an important role to play in fulfilling these requirements:

#### **Internal audit**

Review of internal control systems is a key part of the internal audit role and by reporting and following up on weaknesses identified in systems internal auditors help organisations to manage their risks effectively and demonstrate sound financial control, provide information necessary for management decision making and, through reporting to the audit committee or equivalent body, contribute to the corporate governance of the organisation.

#### **External Audit**

External auditors demonstrate the accountability of organisations through statutory audit reports and opinions on financial statements. They also identify system weaknesses and can provide management with information necessary to improve the control environment. By carrying out value for money audits they are able to contribute to the organisation's efficient and effective use of resources.

- 4 Although this SoPP refers throughout to auditors, it also sets down the standards for those CIPFA members who are ultimately responsible for the audit work undertaken.

### INTRODUCTION

#### **Applicability**

- 5 In order to be eligible for appointment as external auditors of certain bodies (including public bodies, companies registered under the Companies Acts, or charities over a certain size) or to undertake particular audit tasks such as the certification of grant claims for grants from government departments and other public bodies, auditors must comply with the specific technical standards (such as Auditing Standards issued by the APB), rules and practices required to be applied in undertaking such audit work.
- 6 Whilst there are currently no auditing standards set by the APB or the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants which are explicitly concerned with internal audit, CIPFA members working in internal audit are expected to comply with the APB Auditing Guideline 'Guidance for Internal Auditors'.
- 7 It should also be noted that, in addition to action being taken against individual members, there are circumstances where action may be taken against an auditor's employing organisation. For example, where an organisation is registered with a supervisory body (e.g. to undertake audits under the Companies Act 1989), non-compliance with standards by an individual may result in regulatory action being taken against the organisation (e.g. withdrawal of registration).
- 8 It should also be noted that compliance with professional practices is likely to be taken into account when the adequacy of the work of auditors is being considered in a court of law or in other contested situations.

#### **Scope**

- 9 This SoPP covers all forms of internal or external audit and whatever form of audit is carried out. The standard is not intended to apply to more limited independent examinations or similar assignments. Whilst the principles employed may often be the same, the scope of engagements for such assignments are not the same as for an audit.

- 10 It is not appropriate for this SoPP to specify what types of systems, processes and records an organisation should maintain. What is included in this guidance, therefore, is an indication of those areas to which an auditor should give attention in the conduct of audit work. Although the precise way in which these areas are dealt with (or not, if the circumstances of the organisation are not relevant) is a matter for local decision, auditors should be able to demonstrate that they have all been considered and acted upon as appropriate.

## Objectives

### *Internal Audit*

- 11 To ensure that the control systems put in place by an organisation's management in response to the assessed risks are audited and reviewed with due integrity, care and professionalism.

### *External Audit*

- 12 To ensure that financial statements, grant claims and other financial documents prepared by an organisation's management and submitted to the auditor are audited and reviewed with due integrity, care and professionalism and having due regard for control systems in place to the extent that is necessary to meet the requirements of the audit or assurance engagement.

## KEY PRINCIPLES

### Objectivity and independence

- 12 **Auditors should ensure that they are objective and operationally independent. Where organisational independence is difficult to achieve, auditors should ensure an independent and objective attitude of mind.**

*Guidance (see also SoPP on Ethics)*

- 13 Objectivity and independence involves:
- 13.1 Having an objective attitude of mind and being in a sufficiently independent position to be able to exercise judgement, express opinions and present recommendations with impartiality.

- 13.2 Being free from conflicts of interest arising from either professional or personal relationships, including both pecuniary and non-pecuniary matters.
- 13.3 Being free from any undue influence that might affect or vary the scope of the audit or the auditor's judgements.
- 14 Auditors should not provide other services to audited bodies which may compromise their independence of that organisation.

*Internal Audit*

- 15 Where internal audit is part of the audited body and so not carried out by an external agency, members acting as internal auditors should display an independent and objective attitude of mind, as they cannot be financially and operationally independent of the audited body. However, organisational arrangements should ensure that independence of internal auditors is not compromised. Internal auditors should be independent from the activities they audit.

*External Audit*

- 16 External auditors (and agencies providing contracted out internal-audit services) should be both organisationally independent of the audited body and display independence of mind.

**Due care and competence**

- 17 **Auditors should ensure they act with due care, competence and professional skill.**

*Guidance*

- 18 Auditors should undertake their work to a level sufficient to demonstrate diligence, competence, care and skill. 'Due care', however, should not be taken to mean infallibility. Auditors will normally provide reasonable assurance regarding the outcome of their reviews, but not an absolute assurance.
- 19 Auditors should ensure that they have undertaken suitable training and development in order to undertake assigned tasks with due skill and care.

- 20 Auditors should ensure that evidence exists to show that due care has been exercised, including a clear demonstration of audit processes regarding the planning, risk analysis, staffing, evidence-taking, evaluation, review and reporting on the assignment.

### **Rigour and sound professional judgement**

- 21 **Auditors should take all reasonable steps to obtain sufficient, relevant and reliable evidence to support their conclusions, and should apply sound professional judgement in assessing such evidence.**

#### *Guidance*

- 22 The application of rigour and sound professional judgement involves:
- 22.1 The efficient and effective planning, controlling and reporting of audit work.
  - 22.2 The determination of what level and quality of evidence is required in the light of the assignment's objectives and the significance of the matters under review.
  - 22.3 The reliability of the evidence in the context of the matters under review.

### **Foster constructive relationships**

- 23 **Auditors should take all reasonable steps to foster constructive professional relationships with management, boards, audit committees, other auditors, and review agencies.**

#### *Guidance*

- 24 Auditors should seek a constructive and professional working relationship with all levels of management within the audited body. However, auditors should ensure that such relationships are viewed and operated in the context of audit independence and do not adversely impact on objectivity.
- 25 Auditors should, as far as possible, co-ordinate their work with other auditors and review agencies to ensure that duplication of audit effort, and the resultant inconvenience (and possible expense), to the audited body is minimised. The relationship between internal and external audit should be seen as key in this

context.

- 26 At an organisation level, the establishment of protocol statements for internal and external audit arrangements is useful in this context. Where such protocols exist, members should ensure that they are followed.

### Confidentiality

- 27 **Auditors should ensure they observe confidentiality, unless they are required or have discretionary powers to disclose information to another party by way of law or regulation.**

#### *Guidance*

- 28 There is a privileged relationship between auditors and management. Auditors must maintain the confidentiality of the information and documentation both received and generated as a result of their interactions with audited bodies.
- 29 Confidentiality arrangements should also cover contacts with other review agencies, who may have different standards of confidentiality.
- 30 In some cases, auditors (and, in particular, external auditors) are required or have discretionary powers to report matters arising from their audit work to external bodies as a result of law or other regulation, e.g. matters that indicate fraud or a breach of the law or regulation. The requirement for confidentiality contained in this SoPP is not intended to circumvent such requirements.

### Further sources of guidance

#### *Internal Audit*

- 31 For local government internal audit, the APB Guideline on internal audit has been interpreted by the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. For members working in central government, the Government Internal Audit Manual applies, as does the NHS Internal Audit Manual for members working in the health service. The Institute of Internal Auditors Inc. has issued international standards and a code of ethics which may give further guidance.

*External Auditors*

- 32 The extent to which auditing standards are applicable will depend on the legal framework within which the auditor operates. However, CIPFA members working as external auditors in the UK are expected to comply with the standards set by the APB. For auditors working within the public sector, the APB's Practice Note 10 (revised) – '*The audit of financial statements for public sector entities in the UK*' – is a particularly relevant source of guidance.
- 33 Similarly for auditors working overseas, the auditing standards of the appropriate standard setting body or the International Auditing and Assurance Standards Board (IAASB) may be applicable.
- 34 Codes of Practice, equivalent Codes of Conduct and Audit Manuals have also been issued by the statutory audit agencies such as the Audit Commission, Audit Scotland, and the National Audit Office that are relevant for external auditors in the sectors covered by those bodies.