
STATES OF JERSEY



CODE OF AUDIT PRACTICE

**Presented to the States on 28th November 2014
by the Comptroller and Auditor General**

STATES GREFFE



States of Jersey

Comptroller & Auditor General

Code of Audit Practice

**(Prepared under Article 18 of the Comptroller and Auditor General
(Jersey) Law 2014)**

28 November 2014



JERSEY AUDIT OFFICE

Foreword

Independent external audit is an important part of the process of accountability for public money. It provides assurance on the stewardship of public funds and on corporate governance. It also does more. It looks forward as well as back. It serves as a driver for improvement in decision-making and service delivery. It helps to provide transparency for the public sector.

Audit is not a substitute for the responsibilities of those providing public services. It is for them to ensure that public business is conducted in accordance with the law and proper standards, that public money is safeguarded, that public funds are properly accounted for and that economy, efficiency and effectiveness are secured.

The Jersey Audit Office, which I head, is responsible for public audit in Jersey. Its duties, and those of the audit firms I appoint, derive from legislation. Article 18 of the Comptroller and Auditor General (Jersey) Law 2014 ('the 2014 Law') requires me to prepare and publish a statement of the manner in which I propose to discharge my functions. This Code discharges that responsibility.

The Code is an important means by which States members, Ministers, officers of the States, other stakeholders and the public of Jersey can secure a common understanding of what the Comptroller & Auditor General (C&AG) and audit firms appointed by the C&AG will do, what they will not do, how they will operate and how they will interact.

This is the second version of the Code and reflects the implementation of recommendations for legislative change that I made that were implemented through the 2014 Law. As required by Article 18 of the 2014 Law, I will review and revise the Code as necessary.

Karen McConnell
Comptroller & Auditor General

November 2014

Introduction

- 1.1. Legislation prescribes **what** the Comptroller & Auditor General (C&AG) and audit firms appointed by the C&AG shall do. This Code both summarises those duties and sets out **how** those functions should be performed. Those paragraphs prescribing how the functions are to be performed are highlighted in blue (or grey if viewed in black and white).
- 1.2. The Code considers:
 - the general principles to be applied in discharging statutory responsibilities (Section 2);
 - work on the financial statements (Section 3);
 - work on corporate governance, internal control and value for money (Section 4);
 - following up previous external audit recommendations (Section 5);
 - reporting the results of audit work and liaison with others (Section 6);
and
 - other matters (Section 7).

General principles

- 2.1 Audit work undertaken under this Code is subject to the following overriding principles:
- **Independence.** Auditors should be independent of those they audit and be seen to be. Subject to statutory and professional responsibilities, they should comply with Ethical Standards issued by the United Kingdom Financial Reporting Council. They should not undertake any work that might impair their independence or might reasonably be perceived to do so.
 - **Public audit has a wide scope that reflects accountability for funds raised by compulsory taxation.** The scope extends to internal control, value for money and corporate governance.
 - **Auditors do not question the merits of policy objectives.** However, auditors may subsequently consider how policy decisions were reached and the effects of the implementation of policies.
 - **Audit is undertaken to high standards.** Audit work should be undertaken professionally, efficiently and effectively. Audit judgments should be based on sufficient and appropriate evidence of performance against relevant, objective and clearly-specified criteria.
 - **Audit is based on auditors' assessment of risk.** Audit work is based on an assessment of circumstances and targeted at areas of greatest risk identified as part of the planning of audit work.
 - **Audit work recognises both costs and benefits.** In planning audit work auditors should consider the materiality or significance of the sums involved. In making recommendations they should recognise that there are costs of implementing audit recommendations as well as benefits that might arise.
 - **Audit is undertaken as efficiently as possible.** The C&AG and audit firms appointed by the C&AG should discuss the timetable for their work and the information they require. They should seek to rely on the work of internal audit where relevant to their responsibilities.
 - **Auditors report in public, accessibly, without fear or favour.** As audit is an essential element of public accountability, reporting should be publicly available except where there is a compelling case (such as commercial confidentiality) for it not to be. Audit reporting should be accessible and relevant to stakeholders.

- **Auditors adopt a constructive and positive approach.** In discharging their statutory and professional responsibilities, auditors should adopt a constructive and positive approach, supporting and encouraging worthwhile change. In undertaking their work and making recommendations they should recognise the particular circumstances of the island.
- **Confidentiality and data security are balanced with public accountability.** The C&AG and audit firms appointed by the C&AG should comply with statutory and professional requirements relating to the security, holding and disclosure of information received or accessed in the course of their work.

Work on the financial statements

Background

- 3.1 Legislation requires the C&AG to appoint auditors of the financial statements of the following bodies:

The States (including specified funds)	Article 12, 2014 Law
Jersey Competition Regulatory Authority	Article 27 & Schedule 1, 2014 Law
Jersey Advisory and Conciliation Service	Article 27 & Schedule 1, 2014 Law
Jersey Gambling Commission	Article 27 & Schedule 1, 2014 Law
Jersey Financial Services Commission	Article 27 & Schedule 1, 2014 Law
The Jersey Dental Scheme	Article 27 & Schedule 1, 2014 Law

- 3.2 These financial statements are an essential means by which stewardship of public funds is accounted for. The preparers of these financial statements therefore have a duty to:

- put in place systems of internal financial control, including to ensure the regularity and lawfulness of transactions;
- maintain proper accounting records; and
- prepare financial statements on a timely basis in accordance with the relevant accounting framework.

Duties of audit firms appointed by the C&AG

- 3.3 Audit firms appointed by the C&AG are required to audit the financial statements and give their opinion, including:

- whether they give a true and fair view of the financial position of the reporting entity and of its income and expenditure and income for the year; and
- whether the financial statements have been properly prepared in accordance with the relevant accounting framework.

- 3.4 The firm appointed to audit the financial statements of the States has a duty:

- under Article 12(2) of the 2014 Law to report on whether the financial statements of the States have been compiled in accordance with the Jersey Financial Reporting Manual issued by the Treasurer of the States with the approval of the Minister for Treasury and Resources; and
- to report on whether income and expenditure have been applied for the intended purpose and in accordance with the legislation and other authorities that govern them.

3.5 In carrying out this work, audit firms should provide reasonable assurance that the financial statements:

- are free from material misstatement, whether caused by fraud or other irregularity or error;
- comply with statutory and other relevant requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

3.6 Audit firms should review and report as appropriate on other information published with the financial statements.

3.7 In planning and performing their work in accordance with this Code, audit firms should comply with auditing standards issued by the United Kingdom Financial Reporting Council (FRC) currently in force. They should have regard to guidance to auditors issued by the FRC.

3.8 The audit firm appointed to audit the financial statements of the States should:

- for the financial statements of the States for the year ended 31 December 2015 provide a narrative report on the regularity of income and expenditure in a form specified by the C&AG; and
- for the financial statements of the States for the year ending 31 December 2016 and subsequent years, report on the regularity of income and expenditure in accordance with Practice Note 10 issued by the FRC.

3.9 Audit firms appointed by the C&AG should liaise with the C&AG in the course of planning, performing and reporting the results of their work.

Duties of the C&AG: the financial statements of the States

3.10 Article 12(1) of the 2014 Law requires the C&AG, no later than five months after the end of the financial year, to forward the financial statements to the Minister for Treasury and Resources. These are to be accompanied by the report of the auditors who have been appointed

by the C&AG. The Minister shall in turn present them to the States Assembly.

- 3.11 Article 12(3) of the 2014 Law allows the C&AG to attach to the financial statements a note drawing the attention of the States to:
- any matter which the C&AG considers should be of concern to the States or should receive the States' attention;
 - any matter that hindered the audit of any part of the financial statements; and
 - any matter that constituted a significant breach of the Public Finances (Jersey) Law 2005, the Social Security (Jersey) Law 1974, the Health Insurance (Jersey) Law 1967 or the Long-Term Care (Jersey) Law 2012.
- 3.12 The C&AG should liaise with and consider the results of the work of the audit firm appointed to audit the financial statements of the States to assist in identifying any matters that would warrant exercise of the C&AG's power under Article 12(3) of the 2014 Law. In considering whether to exercise that power the C&AG should consider the significance of matters identified.
- 3.13 The C&AG should enter a certificate on the financial statements of the States. This should include any note prepared under Article 12(3) of the 2014 Law or a statement that they have determined that they shall not issue such a note.
- 3.14 The C&AG should publish any note prepared under Article 12(3) of the 2014 Law on their website.

Work on corporate governance, internal control and economy, efficiency and effectiveness

Background

- 4.1 Article 11(3) of the 2014 Law imposes a duty on the C&AG to consider and report to the States on:
- general corporate governance arrangements;
 - the effectiveness of the internal controls, including internal auditing of those controls; and
 - the economy, efficiency and effectiveness in the use of resources of the States, States funded bodies, the Social Security Fund, the Social Security (Reserve) Fund, the Health Insurance Fund and the Long Term Care Fund.
- 4.2 Article 11(3) of the 2014 Law further requires the C&AG to make recommendations to bring about improvement where improvement is needed. Article 20(2) of the 2014 Law requires the C&AG to prepare reports setting out the results of work undertaken.

Corporate governance

- 4.3 Corporate governance refers to the arrangements a body adopts for the proper conduct of its affairs. It embraces the principles of openness, integrity and accountability.

Internal control

- 4.4 Internal control is a process internal to an entity, designed to provide reasonable assurance regarding the achievement of objectives.
- 4.5 An effective system of internal control comprises:
- control environment: setting the tone for the entity;
 - risk assessment: identifying and analysing relevant risks to the achievement of objectives, forming a basis for how the risks should be managed;
 - information and communication: establishing and operating systems or processes that support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities;
 - control activities: establishing policies and procedures that help ensure management directives are carried out; and

- monitoring: establishing processes to assess the quality of internal control performance over time.

Economy, efficiency and effectiveness in the use of resources

4.6 'Value for money' is secured by maximising the '3Es':

- economy: minimising the cost of inputs;
- efficiency: maximising the outputs secured from the inputs; and
- effectiveness: maximising the alignment between outputs and the outcomes desired.

Discharge of responsibilities by the C&AG

4.7 The C&AG should plan their work so that in each year they undertake one or more elements of work specifically to consider each of corporate governance, internal control and economy, efficiency and effectiveness.

4.8 The elements of work undertaken may relate to one or more activities and one or more entities within the scope of the C&AG's responsibilities. Elements of work may contribute to the discharge of one or more of the C&AG's responsibilities.

4.9 In discharging their responsibilities the C&AG should also consider any relevant findings from the audit of financial statements.

4.10 While the C&AG's work is designed to identify major weaknesses in corporate governance or internal control, or significant failures to secure economy, efficiency and effectiveness, it should not be relied upon to identify all weaknesses or failures that exist.

Planning of work

4.11 The C&AG should prepare a strategic and an annual plan to discharge their responsibilities in respect of corporate governance, internal control and economy, efficiency and effectiveness.

4.12 In preparing their plan the C&AG should seek to:

- consider all significant activities and entities relevant to their responsibilities on a cyclical basis;
- maximise the impact of their work by focusing on the areas of greatest risk; and
- take into account the results of the work of others, including internal audit, the Public Accounts Committee and Scrutiny Panels.

4.13 The C&AG should keep under review and amend their planned programme of work as necessary.

Undertaking work

4.14 In undertaking work to discharge these responsibilities the C&AG should:

- clearly specify the objectives and scope of their work;
- seek to obtain sufficient appropriate evidence from which to draw conclusions; and
- prepare and retain appropriate documentation of the work performed and of the conclusion reached to enable an experienced auditor, having no previous connection with the audit, to understand:
 - the nature, timing and extent of audit procedures performed;
 - the results of the audit procedures and evidence obtained;
 - the significant matters arising; and
 - the conclusions reached.

Reporting the results of work

4.15 Article 20 of the 2014 Law makes provision about reporting work undertaken:

- the C&AG must prepare reports arising from the work undertaken. Such reports must mention any matter of concern or any matter that should receive attention;
- the C&AG must submit any report to the Greffier of the States (who shall lay the report before the States); and
- the C&AG must as soon as practicable report a suspected substantial irregularity where they suspect criminal activity to the Attorney General.

4.16 In discharging their responsibilities the C&AG should:

- in determining the content and timing of public reporting, have regard to potential prejudice to the interests of the States arising from public reporting;
- other than in cases of suspected irregularity where they suspect criminal activity, consult with relevant officers on the factual accuracy of draft reports; and
- publish on their website all reports submitted to the Greffier of the States.

Follow-up of previous external audit recommendations

Background

- 5.1 Article 11(3) of the 2014 Law requires the C&AG to make recommendations for improvement where such improvement is needed. The C&AG is not responsible for deciding whether to implement external audit recommendations or for their implementation.
- 5.2 The Public Accounts Committee (in respect of recommendations of the C&AG), the States of Jersey Audit Committee (in respect of recommendations of the audit firm appointed by the C&AG to audit the financial statements of the States) and those charged with governance of other entities (in respect of recommendations made by to those entities by auditors appointed by the C&AG) monitor implementation of audit recommendations.

Approach

- 5.3 The C&AG should, as part of their annual programme:
 - consider the adequacy of arrangements for considering their recommendations and those of audit firms they appoint and, where it is decided to accept a recommendation, the arrangements for monitoring their implementation;
 - on a sample basis, validate the implementation of previous recommendations made by them or audit firms they appoint; and
 - report the results of their work.

Reporting and liaison

Reporting: general principles

6.1 Audit outputs should:

- be clear, succinct and relevant to their audience;
- be written in plain language, avoiding jargon and technical terms where possible; and
- draw clear conclusions and make recommendations.

Timing of reporting

6.2 The C&AG should have regard to impending elections and appointment of ministers in determining the timing of reporting of the results of their work. However, the C&AG should not defer reporting where they:

- have a statutory duty to report without delay or by a specified date; or
- believe that the public interest would not be served by doing so.

Annual audit letter

6.3 There is no statutory duty on the C&AG to draw together the findings from individual pieces of work undertaken and reported by them. However, there may be common themes arising from different pieces of work undertaken, from which overall conclusions may be drawn and recommendations for improvement made.

6.4 The C&AG should therefore annually prepare an audit letter, drawing together the results of their work and that of auditors appointed by them. The letter should:

- summarise the main issues arising from audit work undertaken;
- refer to reports issued in the course of the year;
- consider and report on the implementation of audit recommendations previously made; and
- direct action to the most significant weaknesses identified from audit work.

6.5 They should submit this report as if this were a report made under Article 20 of the 2014 Law.

Annual report and accounts

- 6.6 Article 19(1) of the 2014 Law requires the C&AG to prepare an annual report on the activities of their Office and to provide a copy of that report to the Chief Minister and the Greffier of the States.
- 6.7 Article 19(3) of the 2014 Law requires the C&AG to provide a copy of their audited accounts to the Greffier of the States.
- 6.8 Article 19(4) of the 2014 Law requires the Greffier of the States to lay the report and accounts before the States Assembly.
- 6.9 The C&AG should include within the annual report:
- an explanation of the role and objectives of the Jersey Audit Office and how they have been discharged;
 - a summary of the financial, human and other resources used by the Jersey Audit Office, including a comparison to budget; and
 - a summary of the arrangements in place to secure the good governance of the Jersey Audit Office; and
 - a summary of plans for the future.

Public Accounts Committee

- 6.10 Article 17(2) of the 2014 Law requires the C&AG to liaise with the Public Accounts Committee and attend all meetings of the Committee. Article 17(1) of the 2014 Law, however, recognises the independence of the C&AG and that they cannot be directed in the discharge of their functions.
- 6.11 The C&AG should therefore:
- liaise with the Public Accounts Committee on the development of, delivery of and changes to their audit plan;
 - present the results of their work to the Public Accounts Committee; and
 - provide such further briefings on the results of their work as they determine will assist the Public Accounts Committee in discharging its functions.
- 6.12 In order to preserve their independence, the C&AG should not assume or be seen to assume the role of members of the Public Accounts Committee.

States of Jersey Audit Committee

- 6.13 The Audit Committee is established on a non-statutory basis. It advises the Minister for Treasury and Resources, at their request, in their capacity as those charged with governance for States' accounts. Its remit includes receipt and consideration of reports from the audit firm appointed to audit the financial statements of the States.
- 6.14 The audit firm appointed to audit the financial statements of the States should:
- consult with the Audit Committee on the development of, delivery of and changes to their plans for the audit of financial statements; and
 - present the results of their work on the financial statements to the Audit Committee to assist the Audit Committee in discharging its functions.
- 6.15 In order to preserve their independence, the C&AG and the audit firm appointed to audit the financial statements of the States should not assume or be seen to assume the role of members of the Audit Committee.

Those charged with governance of other entities

- 6.16 Audit firms appointed to audit the financial statements of other entities should:
- identify those charged with governance of each entity;
 - consult with those charged with governance on the development of, delivery of and changes to their plans for the audit of financial statements; and
 - present the results of their work on the financial statements to those charged with governance to assist them in discharging their functions.
- 6.17 In order to preserve their independence, the C&AG and audit firms appointed to audit the financial statements of other entities must not assume or be seen to assume the role of those charged with governance.

Scrutiny Panels

- 6.18 Scrutiny Panels are established under Article 48(4) of the States of Jersey Law 2005 and Standing Orders 135 to 141 of the Standing Orders of the States of Jersey. The Panels can scrutinise policy and make recommendations for improvement. Their remit therefore is different from that of the Public Accounts Committee.

6.19 The C&AG may possess expertise and insight relevant to the functions of Scrutiny Panels. Where requested the C&AG will consider whether to provide evidence to a Panel where if, in their opinion, doing so would assist the Panel and not compromise the discharge of their functions.

Other matters

Ad hoc requests for auditors' views

- 7.1 The C&AG and audit firms appointed by the C&AG may receive requests for auditors' views on regularity, accounting treatment or performance management implications of proposed transactions or proposed courses of actions.
- 7.2 The C&AG and audit firms appointed by the C&AG should consider responding to such requests whilst recognising that:
- they must not compromise their independence by involvement in decision making;
 - they are not financial or legal advisors; and
 - they should do nothing that would impede the ability of the C&AG or audit firms appointed by the C&AG to report in exercise of their statutory or professional responsibilities.

Correspondence and other information

- 7.3 The C&AG may receive correspondence or other information from the public or other interested parties.
- 7.4 The C&AG should consider whether such correspondence or other information is relevant to their functions and, if so, whether any work on their part is warranted and, if so, what work. The C&AG should not assume any responsibility to report the results of such work to correspondents.

Responsibilities to third parties

- 7.5 Auditors have responsibilities only to the addressees of their reports. They have no responsibilities to Ministers, Members of the States Assembly, Accounting Officers, officers or managers in their individual capacities.
- 7.6 Auditors have no responsibilities to third parties, such as correspondents bringing matters to their attention.

Audit firms appointed by the C&AG

- 7.7 In appointing audit firms to undertake the audit of financial statements, the C&AG should adopt a transparent procurement process designed to secure economy, efficiency and effectiveness. The C&AG may engage audit firms appointed as auditors to undertake other work in support of the C&AG.

- 7.8 Audit firms appointed by the C&AG should carefully consider whether any other potential work for the States, a States-funded body, a body controlled by the States or a body to which the C&AG is responsible for the appointment of an audit firm would give rise to an actual or perceived threat to their independence or that of the C&AG. They should seek the consent of the C&AG prior to undertaking any such work.
- 7.9 In deciding whether to consent to audit firms undertaking other work the C&AG should consider in particular the potential for an actual or perceived threat to the independence of the C&AG, including the potential for the subsequent review by the C&AG of work undertaken by the audit firm.

END



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