

Office of the Comptroller and Auditor General

Code of Audit Practice: Summary of Consultation Responses

December 2023

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Foreword

As Comptroller and Auditor General (C&AG) I am committed to providing independent assurance to the people of Jersey on the extent to which public money is spent economically, efficiently and effectively and on whether the controls and governance arrangements in place within public bodies demonstrate value for money. Delivering that assurance requires the framework for public audit to be comprehensive and robust and to follow best practice. The Code of Audit Practice ('the Code') is a key element of Jersey's framework for public audit. The current version of the Code was published in November 2020 following a wide-ranging consultation. I noted in my foreword to that Code that, as required by Article 18 of the Comptroller and Auditor General (Jersey) Law 2014 ('the 2014 Law'), I would continue to review and revise the Code as necessary.

During 2022 and the early part of 2023, as I approached the mid-point of my seven-year appointment as C&AG, I reviewed the Code and the wider Jersey public audit framework against most recently published best practice. While the status of the States of Jersey as a Crown Dependency means that the Office of the C&AG (the Jersey Audit Office or 'JAO') does not meet all the criteria for being classified as a Supreme Audit Institution, I consider that the most relevant principles and standards for the operation of the JAO are published by the International Organization of Supreme Audit Institutions (INTOSAI). My view is informed by other national audit offices that are not classified as supreme audit institutions, such as Audit Wales, adopting INTOSAI principles and standards. I therefore reviewed the Code to ensure compliance with INTOSAI principles and standards together with other relevant standards including:

- auditing, quality management and ethical standards issued by the UK's Financial Reporting Council (FRC)
- the International Code of Ethics for Professional Accountants (published by The International Ethics Standards Board for Accountants) as adapted by professional accountancy bodies such as the Institute of Chartered Accountants in England and Wales and the Chartered Institute of Public Finance Accountants; and
- Statement of Recommended Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) (Practice Note 10) published by the Public Audit Forum.

While my review identified significant levels of compliance, I also identified areas where the Code could be strengthened.

Although the 2014 Law does not require me to consult before revising the Code, I believe that there is great value in taking on board in a structured way the views of public bodies,

the auditors I appoint, other stakeholders and the public of Jersey. On 28 June 2023, therefore, I launched a 10 week consultation on a draft revised Code. This comprised:

- a webinar for stakeholders at which participants were able to discuss the proposed changes and were given the opportunity to provide anonymous online responses to 14 webinar consultation questions; and
- a request for written feedback structured around 27 detailed consultation questions.

17 stakeholders participated in the webinar and three stakeholders provided written answers to the detailed consultation questions. I also received separate feedback from two further stakeholders:

- The Law Officers' department which advised me that the Non-Ministerial Departments Audit Committee role could be better described as advising Accountable Officer on matters relevant to 'governance, risk management and assurance' or 'in accordance with their Terms of Reference' rather than to 'their responsibilities'. I have considered this suggestion in paragraph 33.
- The Public Accounts Committee (the PAC) provided formal written feedback which I have published on the JAO website.

The consultation closed on 8 September 2023. However, in light of feedback suggesting further strengthening of the application of ethical standards to the audit of financial statements, I met with representatives of the six audit firms that I appoint to audit financial statements to discuss further amendments.

This report summarises the feedback I have received, my comments on the feedback and how the feedback has been reflected in the final revised Code. I would like to thank all those who attended the webinar and responded to my consultation for their interest and insight. Those that responded have been highly supportive of my proposed changes and have made constructive comments that have helped me further strengthen the Code.

I have today issued a final revised Code to come into effect for the audit of financial statements for the year ended 31 December 2023 and in all other respects from 1 January 2024.



Lynn Pamment
Comptroller and Auditor General
4 December 2023

Feedback received and C&AG response

General

Webinar consultation questions

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|----|---|
| W1 | Are there any other changes you would like to see in the overall structure or content of the Code? If so, what? |
| W2 | Do you agree that the revised Code should follow published best practice? |
| W3 | What do you see as the main benefits of the Code following best practice? |
| W4 | What do you see as the main downsides of the Code following best practice? |

Detailed consultation questions

- | | |
|----|---|
| D1 | Do you agree with the overall structure and style of the draft Code? If not, what changes would you propose? |
| D2 | Do you agree that the draft revised Code should follow best practice as set out in: <ul style="list-style-type: none">• principles and standards issued by INTOSAI• auditing, quality management and ethical standards issued by the FRC• the International Code of Ethics for Professional Accountants (published by The International Ethics Standards Board for Accountants) as adapted by professional accountancy bodies such as the Institute of Chartered Accountants in England and Wales and the Chartered Institute of Public Finance Accountants; and• Practice Note 10? If not, please explain your reasoning. |
| D3 | Is there any other best practice that the Code should incorporate? |

Consultation responses

1. I received nineteen responses on general issues (fifteen responses to the webinar consultation questions, three responses to the detailed consultation questions and the PAC formal written feedback). Seventeen respondents agreed that the revised Code should follow best practice. One respondent did not know and one disagreed. Consistency and credibility were seen as the main benefits.

Proportionality for the size of the States of Jersey and cost were seen as potential downsides.

2. No respondents suggested any changes to the overall structure and style of the Code or identified any other best practice that the Code should incorporate.

C&AG comments

3. I have carefully considered the comments in respect of proportionality. I am very mindful that in implementing best practice, the Code's provisions need to be proportionate to the size of both the States of Jersey and the JAO.
4. I note, however, that the principle of proportionality is already embedded in the Code. For example:
 - paragraph 61 of the Code requires the C&AG to have regard the scale of the issues and their circumstances in planning work on corporate governance, internal control and economy, efficiency and effectiveness; and
 - INTOSAI principles and standards and International Auditing Standards (UK) issued by the FRC are both founded on the principle of materiality.
5. As a result, I believe the Code strikes the right balance and I have not made any further changes to the Code to reflect comments received in respect of my general consultation questions.

Section 1: Introduction

Detailed consultation questions

D4 Do you have any observations on Section 1?

Consultation response and C&AG comments

6. Section 1 of the draft Code signposts the content of the rest of the Code. No changes were proposed and I did not receive any comments on this section from respondees. As a result, Section 1 of the Code remains unchanged.

Section 2: General principles

Detailed consultation questions

D5 Do you have any observations on Section 2?

Consultation response and C&AG comments

7. Section 2 sets out general principles applicable to public audit in Jersey. No changes were proposed and I did not receive any comments on this section from respondees. As a result, Section 2 of the Code remains unchanged.

Section 3: Work on the financial statements

Webinar consultation questions

W5 Overall, do you support the proposed changes to Section 3 (financial statements)?

W6 Do you have any concerns about the proposed changes to Section 3 (financial statements)? If so, what?

Detailed consultation questions

D6 Do you agree with the provisions relating to requirements for auditors appointed by the C&AG to:

- comply with UK ethical, auditing and quality management standards
- ensure that audit team members that are professional accountants comply with the International Code of Ethics for Professional Accountants (published by The International Ethics Standards Board for Accountants) as adapted by their relevant professional body; and
- provide, in confidence to the C&AG, the results and supporting documentation in respect of engagement quality reviews?

If not, please explain your reasoning.

D7 Do you agree with the provision for the auditor of the States of Jersey to have regard to developing and delivering a regularity audit strategy and plan? If not, please explain your reasoning.

D8 Do you have any other observations on Section 3?

Consultation responses

8. I received thirteen responses on issues relating to Section 3 (ten responses to the webinar consultation questions and three responses to the detailed consultation questions). Eleven respondents supported the proposed changes for the audit of financial statements. Two respondents did not know. No respondents disagreed.
9. Three respondents questioned whether the proposed provisions would increase the cost of the audit of financial statements. One of these was concerned about how the proposals compared to Jersey's 'sister islands' and whether this might make it harder to attract auditors.
10. Two respondents commented that the International Code of Ethics for Professional Accountants should apply to all members of the audit team rather than only to those who are professional accountants.
11. One respondent questioned why the proposed amendment referred to the International Code of Ethics for Professional Accountants rather than the Code of Ethics issued by the FRC. Another suggested that reference should be made to the Institute of Chartered Accountants in England and Wales (ICAEW).

C&AG comments

12. I have carefully considered the concerns raised about the potential cost of the proposed changes and comparison to neighbouring jurisdictions.
13. I am satisfied that my proposed changes are designed to bring Jersey into line with international practice and neighbouring jurisdictions rather than to introduce

additional requirements. None of the audit firms have expressed any concerns that Code is overly onerous. I have, therefore, not made any changes to reflect these concerns.

14. I agree with the respondees who suggested that the International Code of Ethics for Professional Accountants should apply to all members of the audit team, not just those who are professional accountants. After discussion with representatives of audit firms that I appoint to audits of States controlled and established entities, I am satisfied that this is consistent with current practice and have amended this provision in the Code accordingly.
15. I am satisfied that the reference to the International Code of Ethics for Professional Accountants is appropriate. I agree that audit firms should follow the FRC Code of Ethics and this is set out clearly in the Code. However, the focus of the FRC Code of Ethics is on audit firms and INTOSAI principles and standards also require clear ethical standards for individual members of the engagement team. As a result, I consider that the revised Code also needs to specify ethical standards for members of engagement teams. The revised Code achieves this by also requiring firms ensure that members of audit teams follow the International Code of Ethics for Professional Accountants (as adapted by a relevant professional body such as the ICAEW). In setting out requirements for both the firm and individuals, the Code follows the same framework as adopted in the UK.
16. As a result, I have clarified the requirement for audit firms to ensure that all members of the engagement team follow the International Code of Ethics for Professional Accountants (as adapted by a relevant professional body such as the ICAEW).

Section 4: Work on corporate governance, internal control and economy, efficiency and effectiveness

Webinar consultation questions

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|----|---|
| W7 | Overall, do you support the proposed changes to Section 4 (corporate governance, internal control and the 3Es)? |
| W8 | Do you have any concerns about the proposed changes to Section 4 (corporate governance, internal control and the 3Es)? If so, what? |

Detailed consultation questions

- D9 Do you agree with the provision for the C&AG to meet INTOSAI principles and standards in respect of performance? If not, please explain your reasoning.
- D10 Do you agree with the provisions requiring the C&AG to have regard to the effectiveness of internal audit and the risk of financial impropriety, fraud and corruption? If not, please explain your reasoning.
- D11 Do you agree with the provision requiring the C&AG to draw conclusions based on independent professional judgement and sound and robust analysis? If not, please explain your reasoning.
- D12 Do you have any other observations on Section 4?

Consultation responses

17. I received seventeen responses on issues relating to Section 4 (thirteen responses to the webinar consultation questions, three responses to the detailed consultation questions and the PAC formal written feedback). Fifteen respondents agreed with the proposed changes to Section 4. This included the PAC's response which specifically highlighted its agreement with changes to Section 4. One respondent did not know and one respondent disagreed.
18. The main concerns related to uncertainty about the criteria for assessing the effectiveness of internal audit and the risk of duplicating internal audit work.

C&AG comments

19. I am mindful of the need to use clear criteria in my assessment of internal audit but do not consider that it would be appropriate to specify these criteria in the Code. I intend to consult with internal audit on the criteria I will use for the assessment.
20. I am also mindful of the need to avoid duplication. However, I am satisfied that this is addressed by paragraph 63 of the revised Code which requires the C&AG to have regard to the scope, nature, timing and results of internal audit work.
21. As a result, I have not made any further changes to the Code to reflect comments received in respect of Section 4.

Section 5: Follow-up of previous audit recommendations

Detailed consultation question

D13 Do you have any observations on Section 5?

Consultation response and C&AG comments

22. Section 5 covers the C&AG's work following up the implementation of previous audit recommendations. No changes were proposed and I did not receive any comments on this section from respondents. As a result, Section 5 of the Code remains unchanged.

Section 6: Reporting

Webinar consultation questions

W9 Do you support the proposed changes to Section 6 (reporting)?

W10 Do you have any concerns about the proposed changes to Section 6 (reporting)? If so, what?

Detailed consultation questions

D14 Do you agree with the provision requiring the C&AG to prepare and submit an Annual Report of Findings in line with INTOSAI principles and standards? If not, please explain your reasoning.

D15 Do you agree with the provisions setting out the content of the Annual Report of Findings? If not, please explain your reasoning.

D16 Do you agree with the provisions for the C&AG to submit the Annual Report of Findings:

- as a report made under Article 20 of the 2014 Law; and
- no later than 30 working days after the date on which the C&AG issues their certificate on the financial statements of the States of Jersey?

If not, please explain your reasoning.

D17 Do you have any other observations on Section 6?

Consultation responses

23. I received fourteen responses on issues relating to Section 6 (eleven responses to the webinar consultation questions and three responses to the detailed consultation questions). Twelve respondents supported the proposed changes to Section 6. Two respondents did not support the proposed changes.
24. The main concerns related to:
- the need for the C&AG findings and conclusions to be balanced and proportionate for Jersey; and
 - the potential impact of publishing the Annual Report of Findings before a general election.

C&AG comments

25. A key principle of public sector audit is that auditors should report independently, without fear or favour and on a timely basis. This principle is set out in paragraph 70 of the revised Code. I recognise that all my reports need to be balanced and proportionate to Jersey.
26. I consider that the revised Code already reflects the need for my reports to be balanced and proportionate:
- the need for balance is reflected in the JAO fundamental values of fairness and justice (see paragraph 13 of the Code) and the requirement for the C&AG to consult with relevant Officers on the factual accuracy of draft reports (see paragraph 65 of the Code); and
 - the principle of proportionality is embedded in the Code and INTOSAI standards (see paragraph 4 above).
27. I have, therefore, not made any further amendments to the Code to reflect the need for balance and proportionality.
28. Regarding the timing of my Annual Report of Findings, I note that paragraph 71 of the revised Code requires the C&AG to have regard to impending elections and appointment of Ministers in determining the timing of reporting of the results of their work. I have already adopted a practice of not publishing reports during an election period.
29. However, I agree that it was not clear in the consultation draft of the revised Code, whether the requirement to have regard to impending elections and appointment

of Ministers applied to the timing of the publication of the Annual Report of Findings.

30. I have, therefore, amended paragraph 73 to make clear that the C&AG should have regard to impending elections and the appointment of Ministers in determining the timing of publication of the Annual Report of Findings.

Section 7: Liaison

Webinar consultation questions

W11 Do you support the proposed changes to Section 7 (liaison)?

W12 Do you have any concerns about the proposed changes to Section 7 (liaison)? If so, what?

Detailed consultation questions

D18 Do you agree with the reflection of the Non-Ministerial Departments Audit Committee and the way in which the C&AG will liaise with this Committee? If not, please explain your reasoning.

D19 Do you agree with the provisions regarding Jersey Regulatory Bodies? If not, please explain your reasoning.

D20 Do you have any other observations on Section 7?

Consultation responses

31. I received nineteen responses on issues relating to Section 7 (fourteen responses to the webinar consultation questions, three responses to the detailed consultation questions, the PAC formal written feedback and a comment from the Non-Ministerial Departments Audit Committee). Fourteen respondents supported the proposed changes. This included the Public Accounts Committee's response which specifically highlighted its agreement with changes to Section 7. Two respondents did not support the proposed changes and two did not know. There were two key concerns:

- it was not clear which bodies are defined as Jersey Regulatory Bodies; and
- the provisions regarding Jersey Regulatory Bodies were, in the first instance, a matter for the bodies concerned.

32. One of the respondents suggested that the Jersey Regulatory Bodies should be defined by reference to the Jersey Regulators Forum.
33. The Non-Ministerial Departments Audit Committee suggested that its role could be better described as advising Accountable Officer on matters relevant to 'governance, risk management and assurance' rather than to 'their responsibilities'.

C&AG comments

34. I agree that it would be helpful to:
 - be clearer about which bodies are defined as Jersey Regulatory Bodies; and
 - describe the role of the Non-Ministerial Departments Audit Committee by referring to governance, risk management and assurance.
35. I have, therefore, amended the Code accordingly.

Section 8: Other matters

36. Section 8 gathers together material relevant to the discharge of my functions that do not fit in any other section.
37. The only proposed change is a clarification of the professional and legal responsibilities of the C&AG, the JAO and auditors appointed by the C&AG in respect of transparency, confidentiality, data and records.

Detailed consultation questions

- D21 Do you agree with the proposed clarification of the professional and legal responsibilities of the C&AG, the JAO and auditors appointed by the C&AG? If not, please explain your reasoning.
- D22 Do you have any other observations on Section 8?

Consultation response and C&AG comments

38. All three stakeholders who provided responses on this section agreed with the proposed change. As a result, I have not made any further amendments to Section 8 other than those proposed in the consultation.

Appendices

Webinar consultation questions

- W13 Overall, do you support the proposed changes to Appendix 3 (quality framework)?
- W14 Do you have any concerns about the proposed changes to Appendix 3 (quality framework)? If so, what?

Detailed consultation questions

- D23 Do you agree with the provisions to change the first level of the quality framework to read 'Individuals and teams with the competencies, capabilities and commitment to ethical principles necessary for compliance with relevant standards'? If not, please explain your reasoning.
- D24 Do you agree with the provisions for additional requirements for the first level of the quality framework in relation to:
- the JAO, including the requirement to comply with *ISSAI 130, Code of Ethics*; and
 - auditors appointed by the C&AG, including the requirement to comply with relevant ethical standards?
- If not, please explain your reasoning.
- D25 Do you agree with the provisions for additional requirements for the second level of the quality framework, organisation-wide arrangements for quality control in relation to:
- the JAO; and
 - auditors appointed by the C&AG?
- If not, please explain your reasoning.
- D26 Do you agree with the provisions to require the C&AG to periodically submit the JAO's operation to independent review? If not, please explain your reasoning.
- D27 Do you have any other observations on the Appendices?

Consultation response and C&AG comments

39. The draft revised Code follows the same structure as the 2020 Code and includes five appendices. The most significant proposed change related to Appendix 3 - Audit Quality Framework.

40. I received thirteen responses on issues relating to the appendices (ten responses to the webinar consultation questions and three responses to the detailed consultation questions). Twelve respondents agreed with the proposed changes to Appendix 3. No respondents disagreed and one did not know. There were no observations on the other appendices. I have, therefore, made no further changes to the appendices other than those proposed in the consultation.



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