

Office of the Comptroller and Auditor General

Code of Audit Practice Consultation

28 June 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 ('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 International Organisation 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 have therefore reviewed the Code to ensure compliance with INTOSAI principles and standards.

Other relevant standards I have considered as part of my review of the Code include:

- 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. I am, therefore, proposing to make changes to the Code to bring it in line with best practice.

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. I am therefore today launching a formal consultation on a draft revised Code. My intention is to issue a revised Code in the autumn of 2023 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.

In addition to my proposals to strengthen the Code, I also identified opportunities to update the 2014 Law and supporting policies and procedures. I will describe these in detail and make appropriate recommendations for the States of Jersey to consider as part of my *Mid-Term Reflections* publication planned for July 2023. I anticipate that the Code will require a further update if and when amendments to the 2014 Law and supporting policies and procedures come into effect.

This consultation document comprises:

- Part A - a summary of proposed changes to the Code of Audit Practice; and
- Part B - the arrangements for responding to the consultation.

It is accompanied by the draft revised Code.

The consultation closes on 8 September 2023 and I encourage all interested parties to respond. I shall consider carefully the responses to the consultation before finalising the revised Code and determining next steps.

Lynn Pamment
Comptroller and Auditor General

28 June 2023

Part A: Summary of proposed changes to the Code of Audit Practice

General

1. The draft revised Code retains the overall structure of both the 2020 and 2014 Codes with sections covering:
 - general principles applying to public audit in Jersey
 - the main components of public audit; and
 - matters that apply more generally to the work of the C&AG and the auditors I appoint.
2. It also retains the overall style:
 - summarising relevant responsibilities; and
 - explaining how the C&AG and auditors appointed by the C&AG shall discharge their responsibilities.
3. The draft revised Code is strengthened by a series of amendments to bring it in line with the most recently published best practice as set out in:
 - principles and standards for the operation of Supreme Audit Institutions issued by the International Organisation of Supreme Audit Institutions (INTOSAI)
 - 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) published by the Public Audit Forum (Practice Note 10).

Consultation questions

Q1. Do you agree with the overall structure and style of the draft Code? If not, what changes would you propose?

Q2. Do you agree that the draft revised Code should follow best practice as set out in:

- 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.

Q3. Is there any other best practice that the Code should incorporate?

Section 1: Introduction

4. Section 1 of the draft Code signposts the content of the rest of the Code. No changes are proposed.

Consultation question

Q4. Do you have any observations on Section 1?

Section 2: General principles

5. Section 2 sets out general principles applicable to public audit in Jersey. No changes are proposed.

Consultation question

Q5. Do you have any observations on Section 2?

Section 3: Work on the financial statements

6. Section 3 covers:
- the audit of financial statements undertaken by auditors appointed by the C&AG; and
 - the duties and powers of the C&AG in relation to the audit of the financial statements of the States of Jersey.
7. The main proposed changes from the 2020 Code are:
- explicit provisions for all auditors appointed by the C&AG to:
 - comply with ethical, auditing and quality management standards applicable in the United Kingdom (the 2020 Code just refers to auditing standards)
 - ensure that audit team members who 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 to the C&AG in confidence, the results and supporting documentation in respect of engagement quality reviews performed in accordance with quality management standards; and
 - as set out in *International Standards of Supreme Audit Institutions (ISSAI) 400: Compliance Audit Principles* a requirement for the auditor of the States of Jersey, in planning, performing and reporting their work on their regularity opinion, to develop and deliver a regularity strategy and plan.

Consultation questions

- Q6. 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.
- Q7. Do you agree with the provision for the auditor of the States of Jersey to have regard to develop and deliver a regularity audit strategy and plan? If not, please explain your reasoning.
- Q8. Do you have any other observations on Section 3?

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

8. Section 4 covers the C&AG's functions in respect of corporate governance, internal control and economy, efficiency and effectiveness.
9. The main proposed changes from the 2020 Code are:
- a general requirement for the C&AG to meet the requirements of INTOSAI principles and standards in respect of performance audit; and
 - explicit requirements for the C&AG:
 - in planning their work to have regard to the effectiveness of internal audit and the risk of financial impropriety, fraud and corruption; and

- in undertaking their work to draw conclusions based on independent professional judgement and sound and robust analysis.

Consultation questions

- Q9. 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.
- Q10. Do you agree with the provisions requiring the C&AG to have regard to the effectiveness of internal audit and the the risk of financial impropriety, fraud and corruption? If not, please explain your reasoning.
- Q11. 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.
- Q12. Do you have any other observations on Section 4?

Section 5: Follow-up of previous audit recommendations

10. Section 5 covers the C&AG's work following up the implementation of previous audit recommendations. No changes are proposed to Section 5.

Consultation question

- Q13. Do you have any observations on Section 5?

Section 6: Reporting

11. Section 6 covers the C&AG's work in respect of reporting. The draft revised Code follows the same structure as the 2020 Code. The key proposed change is the requirement for the C&AG to prepare and submit an Annual Report of Findings in line with INTOSAI principles and standards.
12. The requirements for the Annual Report of Findings are set out under a new heading. Section 6 now comprises:

- general principles applying to reporting
 - the timing of reporting
 - the Annual Report of Findings
 - other reports drawing together the results arising from different pieces of audit work; and
 - the content of the Annual Report and Accounts of the Office.
13. The draft revised Code specifies the content of the Annual Report of Findings required to meet INTOSAI principles and standards. The C&AG is required to prepare an Annual Report of Findings that:
- summarises the main issues arising from audit work undertaken and where appropriate, directs attention to the most significant weaknesses identified
 - identifies themes, common findings, trends and root causes
 - comments on overall audit outcomes; and
 - considers and reports on the implementation of audit recommendations previously made and, where appropriate, makes further recommendations.
14. The C&AG would be required 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.

Consultation questions

Q14. 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.

Q15. Do you agree with the provisions setting out the content of the Annual Report of Findings? If not, please explain your reasoning.

Q16. 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.

Q17. Do you have any other observations on Section 6?

Section 7: Liaison

15. Section 7 covers liaison. It has been updated to reflect the establishment during 2022 of an Audit Committee for the following Non-Ministerial Departments:

- Law Officers' Department
- Judicial Greffe
- Viscount's Department
- States Greffe
- Probation and After-Care Service; and
- Bailiff's Chambers.

16. This section has also been updated to reflect the liaison between the C&AG and Jersey Regulatory Bodies. The proposed revision reflects the principles for liaison between the C&AG and Jersey Regulatory Bodies and exchange of information between organisations.

Consultation questions

Q18. 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.

Q19. Do you agree with the provisions regarding Jersey Regulatory Bodies? If not, please explain your reasoning.

Q20. Do you have any other observations on Section 7?

Section 8: Other matters

17. Section 8 gathers together material relevant to the discharge of my functions that do not fit in any other section.
18. 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.

Consultation questions

- Q21. 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.
- Q22. Do you have any other observations on Section 8?

Appendices

19. The draft revised Code follows the same structure as the 2020 Code and includes five appendices:
 - Appendix 1 - Summary of statutory powers and duties
 - Appendix 2 - Auditors of financial statements appointed by the C&AG
 - Appendix 3 - Audit Quality Framework
 - Appendix 4 - Summary of responsibilities of public bodies; and
 - Appendix 5 - Glossary of terms
20. The most significant proposed change relates to Appendix 3 - Audit Quality Framework. This has been updated to reflect:
 - ethical and quality management requirements set out in INTOSAI principles and standards
 - updated quality management standards issued by the FRC; and
 - updated ethical and quality management guidance set out in Practice Note 10 - Revised.

21. The key changes to Appendix 3 are:

- the first level of the quality framework for gaining assurance about audit quality is now: 'Individuals and teams with the competencies, capabilities and commitment to ethical principles necessary for compliance with relevant standards.' Previously this was: 'appropriately trained and supported individuals and audit teams'
- additional requirements for the C&AG, in relation to the JAO, to:
 - assess as part of the procurement process the competencies, capabilities and commitment to ethical principles of the Deputy Comptroller and Auditor General and affiliates necessary for compliance with INTOSAI principles and standards
 - comply and require the Deputy Comptroller and Auditor General and affiliates of the JAO to comply with *ISSAI 130, Code of Ethics*
 - put in place a professional development strategy; and
 - ensure that they, the Deputy Comptroller and Auditor General and affiliates of the JAO only undertake work that they are competent to perform
- additional requirements for the C&AG, in relation to auditors appointed by the C&AG, to:
 - evaluate as part of the procurement process whether the appointed auditor and the audit team have sufficient personnel with the competencies, capabilities and commitment to ethical principles necessary for compliance with relevant ethical, quality management and auditing standards; and
 - require the appointed auditor and their audit teams to comply with relevant ethical standards including:
 - the FRC ethical standard; and
 - for team members who are professional accountants, the International Code of Ethics for Professional Accountants (published by The International Ethics Standards Board for Accountants) as adapted by the relevant professional body
- the second level of the quality framework, organisation-wide arrangements for quality control, now requires the C&AG to establish appropriate arrangements

for securing the quality of audit work in line with INTOSAI principles and standards

- in relation to the JAO, additional arrangements including:
 - publishing and monitoring compliance with a Code of Conduct that sets out how to interpret and apply *ISSAI 130, Code of Ethics*
 - a system of annual declaration of independence; and
 - establishing and implementing a consistent approach for planning, performing and reporting work on corporate governance, internal control and economy, efficiency and effectiveness that complies with INTOSAI principles and standards in respect of performance audit
- in relation to auditors appointed by the C&AG, additional arrangements including that the C&AG:
 - evaluates organisational arrangements for ensuring compliance with relevant ethical, quality management and auditing standards prior to making an appointment and annually during the audit appointment; and
 - requires annual confirmation that the appointed auditor and other members of the audit team continue to comply with relevant ethical standards; and
- the third level of the quality framework, independent audit assurance activity, now includes a requirement for the C&AG to periodically submit the JAO's operations to independent review, for example peer review, and report the findings to the Public Accounts Committee.

22. Other minor changes have been made to Appendix 5 - Glossary

Consultation questions

Q23. 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.

Q24. 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.

Q25. 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.

Q26. 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.

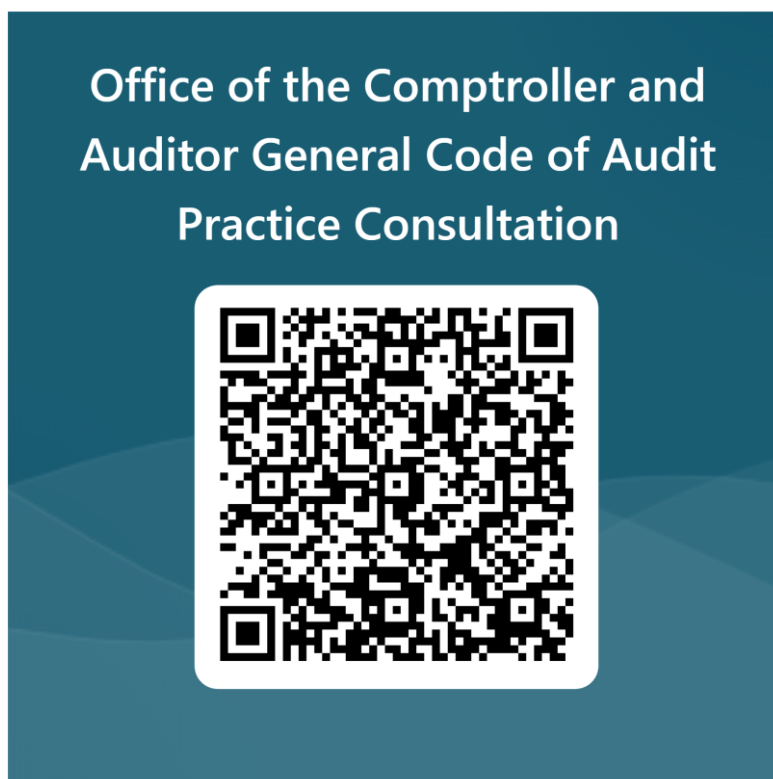
Q27. Do you have any other observations on the Appendices?

Part B: Responding to this consultation

Background

23. Responses to this consultation are encouraged and welcomed from all interested parties.
24. Please use the QR code or link below to submit your consultation response online. Alternatively, please submit your consultation to enquiries@jerseyauditoffice.je including 'Code of Audit Practice Consultation' in the title, no later than **8 September 2023**. Please clearly state the name of any organisation on behalf of which you are submitting a response.
25. I intend to publish a summary of consultation responses alongside a finalised Code of Audit Practice. I intend to publish responses received, unless you state that your response is to be treated as confidential. Please clearly state if you wish your consultation to be treated as confidential.

QR Code and link for online response submission



<https://forms.office.com/e/0ZHa9Y0cYy>

Appendix One

Consultation Questions

General

- Q1. Do you agree with the overall structure and style of the draft Code? If not, what changes would you propose?
- Q2. Do you agree that the draft revised Code should follow best practice as set out in:
- 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.

- Q3. Is there any other best practice that the Code should incorporate?

Section 1: Introduction

- Q4. Do you have any observations on Section 1?

Section 2: General principles

- Q5. Do you have any observations on Section 2?

Section 3: Work on the financial statements

- Q6. 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.

Q7. Do you agree with the provision for the auditor of the States of Jersey to have regard to develop and deliver a regularity audit strategy and plan? If not, please explain your reasoning.

Q8. Do you have any other observations on Section 3?

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

Q9. 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.

Q10. Do you agree with the provisions requiring the C&AG to have regard to the effectiveness of internal audit and the the risk of financial impropriety, fraud and corruption? If not, please explain your reasoning.

Q11. 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.

Q12. Do you have any other observations on Section 4.

Section 5: Follow-up of previous audit recommendations

Q13. Do you have any observations on Section 5?

Section 6: Reporting

Q14. 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.

Q15. Do you agree with the provisions setting out the content of the Annual Report of Findings? If not, please explain your reasoning.

Q16. 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.

Q17. Do you have any other observations on Section 6?

Section 7: Liaison

Q18. 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.

Q19. Do you agree with the provisions regarding Jersey Regulatory Bodies? If not, please explain your reasoning.

Q20. Do you have any other observations on Section 7?

Section 8: Other matters

Q21. 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.

Q22. Do you have any other observations on Section 8?

Appendices

Q23. 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.

Q24. 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.

Q25. 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.

Q26. 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.

Q27. Do you have any other observations on the appendices?



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