 <p>National Audit Office</p>	<p style="text-align: right;">AGN01 General Guidance Supporting Local Audit Issued on 1 April 2015</p>
--	---

Auditor Guidance Note 1 (AGN/01)

General Guidance Supporting Local Audit

Version issued on: 1 April 2015

About Auditor Guidance Notes

Auditor Guidance Notes (AGNs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act).

AGNs set out guidance to which local auditors must have regard under Section 20(6) of the Act. The guidance in AGNs supports auditors in meeting their requirements under the Act and the *Code of Audit Practice* published by the NAO on behalf of the C&AG.


The NAO also issues Weekly Auditor Communications (WACs) to local auditors to bring to their attention relevant information to support them in carrying out audit work. The firms that are local auditors under the Act may use WACs to update their own internal communications and reference tools.

AGNs are numbered sequentially and published on the NAO's website. Any new or revised AGNs are brought to the attention of local auditors through the WACs.

The NAO prepares Auditor Guidance Notes (AGNs) solely to provide guidance to local auditors in interpreting the Code of Audit Practice made under the Local Audit and Accountability Act 2014. The contents of AGNs cannot be reproduced, copied or re-published by parties other than local auditors without permission from the NAO.

The AGNs are designed to assist local auditors in forming their own understanding of the requirements of the Code. Auditors are required to have regard to AGNs, and the Code explains that this means that auditors are expected to comply with the NAO's guidance or provide a reasonable explanation as to why not. AGNs are in no way intended as a substitute for the exercise of the independent professional skill and judgement of a local auditor in deciding how to apply the NAO's guidance or when providing explanations as to why guidance has not been followed.

Local auditors should not assume that AGNs are comprehensive or that they will provide a definitive answer in every case.

 <p>National Audit Office</p>	<p style="text-align: right;">AGN01 General Guidance Supporting Local Audit Issued on 1 April 2015</p>
--	---

At the start of each AGN there is a clear statement about the local auditors for whom the AGN is relevant.

AGN01 is relevant to all auditors of local bodies including auditors of smaller authorities and Foundation Trusts (unless otherwise stated).

Introduction

Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act) gives the C&AG the power to issue guidance to local auditors who must have regard to any such guidance under Section 20(6) of the Act. The NAO prepares and issues guidance for local auditors on behalf of the C&AG in order to:

- help auditors to exercise their statutory functions;
- explain and supplement the provisions of the *Code of Audit Practice* (the Code) issued by the C&AG; and
- promote consistency of approach between local auditors.

This AGN (AGN01) sets out the overall framework for issuing guidance, and for providing other support to auditors, and is applicable from 1 April 2015 when the C&AG takes on the statutory responsibility under Section 20(6) of the Act. However, auditors should note the specific application dates set out in other AGNs.

Throughout AGN01, the terms local auditor and auditor cover the firm and engagement leads nominated by a firm to discharge its statutory obligations under the Act and the Code. Auditors and all members of audit teams must comply with the Act and the Code and have regard to guidance issued by the NAO on behalf of the C&AG.

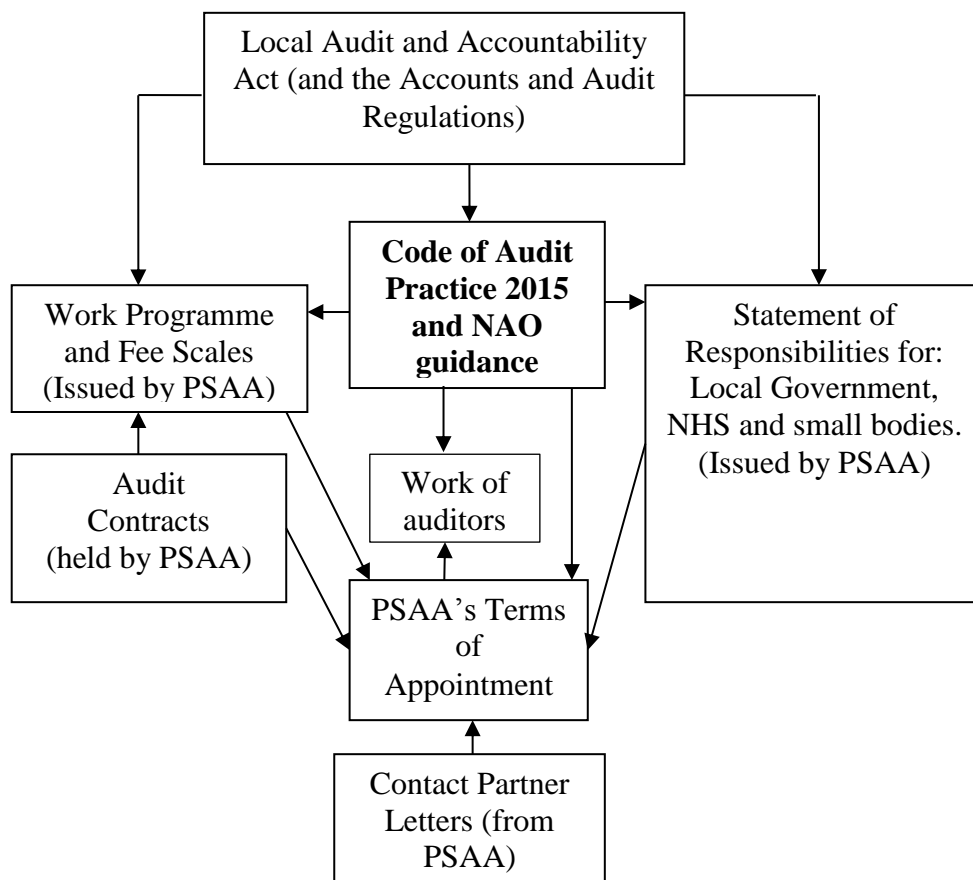
The general guidance set out in this AGN addresses matters of a recurring nature and will be kept under review and updated as required. AGN01 will be reissued as required to ensure that it remains current and relevant. The NAO's arrangements for engaging with auditors, which will also inform updates to guidance, are set out in this AGN.


In the case of NHS Foundation Trusts (FTs) it is the FT's council of governors that is responsible for appointing auditors. The FT's council must ensure that, as part of the appointment process, their auditors meet the criteria specified in legislation, and must have regard to Monitor's guidance on appointment. The auditors must agree the terms of engagement with the FT in the form of a

letter (letter of engagement), and it is the FT that is responsible for contract management.

Auditors of local bodies covered by the Act, other than auditors of FTs, must meet their obligations under the firms' contracts with the transitional body, Public Sector Audit Appointments Ltd (PSAA), including the PSAA's Terms of Appointment, and ensure that they are familiar with the *Statement of Responsibilities of Auditors and of Audited Bodies*, which is issued by PSAA, because it serves as the formal terms of engagement between auditors and audited bodies. Statutory and contractual requirements are not duplicated in this AGN.

The following diagram shows how PSAA's Terms of Appointment interact with legislation, the Code, the audit contracts and other guidance produced by the NAO.



 <p>National Audit Office</p>	<p style="text-align: right;">AGN01 General Guidance Supporting Local Audit Issued on 1 April 2015</p>
--	---

To contact the NAO or PSAA the following emails have been set up for the purposes shown below:

Technical and legal queries to the NAO: LACG.queries@nao.gsi.gov.uk

Other information for the attention of the NAO's Local Audit Code and Guidance team should be sent to: LACG@nao.gsi.gov.uk

To contact PSAA email: auditregulation@psaa.co.uk

Ethical Considerations


What is the issue?

Local auditors need to comply with the Act, the *Code of Audit Practice* (the Code), professional requirements and contractual obligations including relevant terms of appointment.

The Code requires auditors to comply with auditing and ethical standards as well as any additional requirements set out by a body charged with oversight of the auditor's independence. For audits of local bodies covered by the Act, other than FTs, such a body is the transitional body, Public Sector Audit Appointments Ltd (PSAA), and auditors must comply with PSAA's terms of appointment including those designed to ensure integrity, objectivity and independence, while also recognising the wider scope of public audit.

Auditors of FTs are not covered by PSAA's terms of appointment but are required by the Code to comply with auditing and ethical standards which means that they need to carry out their work with independence and objectivity.

The NAO will monitor developments in the wider profession, including the Financial Reporting Council's work to update ethical standards. In the meantime, the NAO recognises that PSAA has set out appropriate requirements which remain fit-for-purpose until such time as any further guidance on the application of ethical requirements to local audit might be needed. The NAO will consider any application guidance that the FRC may

 <p>National Audit Office</p>	<p style="text-align: right;">AGN01 General Guidance Supporting Local Audit Issued on 1 April 2015</p>
--	---

develop and, in due course, the NAO may issue guidance on the application of ethical standards in a future AGN, if required.

What should auditors do?

Auditors should comply with ethical standards and, in the case of auditors of local bodies other than FTs, the PSAA's terms of appointment.

Auditors of FTs should ensure that they maintain an objective attitude at all times and that they do not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest. In particular, no member of the audit team may be a member or governor of the FT, as this could result in an independence issue.

The auditor of an FT may, with the approval of the FT's council of governors, provide the FT with services (additional services) that are outside the scope of the audit as defined by Code. The FT is expected by Monitor to adopt and implement a policy for considering and approving any additional services to be provided by the auditor. Work on additional services should be reported to those charged with governance in accordance with auditing standards. For the avoidance of doubt, it is the auditor's decision to determine who are 'those charged with governance' at an FT. It is expected however that this will be the Audit Committee in the first instance and the council of governors if the auditors feel that the issue is significant.

Guidance provided by the NAO

What is the issue?

Auditors are required to have regard to guidance issued by the NAO on behalf of the C&AG. The term '**have regard to**' means that the auditor is **expected to comply with the guidance issued by the NAO or provide a reasonable explanation within audit documentation as to why not.**

It is important, therefore, that auditors understand that the NAO issues guidance through:

- **Auditor Guidance Notes (AGNs)**



National Audit Office

AGN01
General Guidance Supporting Local Audit
Issued on 1 April 2015

AGNs are issued to support local auditors in meeting their requirements under the Act and the *Code of Audit Practice*. Auditors must have regard to AGNs. Each AGN is numbered sequentially, and also dated to indicate when it was issued, and will be revised and updated as appropriate. The following AGNs have been issued and published on the NAO's website:

AGN01: General Guidance Supporting Local Audit

AGN02: Specified Procedures for Assurance Engagements at Smaller Authorities

AGN03: Auditors' Work on Value for Money Arrangements

AGN04: Auditors' Additional Duties and Powers

AGN05: Planning NHS Audits

AGN06: Planning Local Government Audits

AGN07: Auditor Reporting

AGNs may be supported by relevant other material. Such material is initially based on documents previously issued by the Audit Commission but will be kept under review by the NAO and updated as appropriate. For example, *AGN02: Auditors' work on value for money arrangements* is supported by a web-based document that auditors will need to refer to when carrying out this work.

- **Weekly Auditor Communications (WACs)**

The NAO issues Weekly Auditor Communications (WAC), and less frequently special auditor communications (SACs), to each firm.

The WAC is for information. However, the WAC may draw attention to guidance that has been issued by the NAO on behalf of the Comptroller and Auditor General in AGNs to which, as noted above, auditors must have regard.

In order to highlight any items that may need urgent attention the WAC is structured as follows:

Items for urgent attention

- cross sectoral issues;
- for auditors of local government bodies; and
- for auditors of NHS bodies, including FTs.



Other items for information

- cross sectoral information;
- for auditors of local government bodies; and
- for auditors of NHS bodies, including FTs.

- **Responding to technical and legal queries**

The NAO receives and responds to regime-wide technical and legal queries from the firms. However, firms have the necessary professional and technical expertise to perform their functions, and so the following protocol sets out the respective responsibilities of the firms and the NAO for dealing with technical and legal queries.

Protocol for dealing with technical and legal queries

This protocol aims to use the professional resources of both the firms and the NAO cost-effectively, and covers all auditors' technical and legal queries relating to work under the Code.

Responsibilities of the auditor

Where an auditor has an issue that they cannot answer, they should try to resolve it by working through a staged process:

- Consult the relevant standards and guidance, such as Auditor Guidance Notes, the Code, NHS manuals for accounts, or relevant statutory instruments. Other useful sources include: published guidance on the application of UK accounting and auditing standards, and the NAO's VFM arrangements guidance (see AGN03) and guidance on auditors' additional duties and powers (AGN04).
- Seek to resolve the issue with advice from their firm's support service.
- The firm's support service should refer unresolved issues to the NAO's Local Audit Code and Guidance (LACG) team by e-mailing LACG.queries@nao.gsi.gov.uk using the current template.
- Specify the query as closely as possible, stating:
 - the information sought;
 - any background information;
 - the steps already taken; and
 - a deadline for a response.

Sending queries to the LACG.queries@nao.gsi.gov.uk email account ensures: that all parties have a clear record of the query, that the NAO team can refer it to the most appropriate expert to answer it and that it is logged in the enquiry database for analysis and reference.



National Audit Office

AGN01
General Guidance Supporting Local Audit
Issued on 1 April 2015

Responsibilities of the LACG team

On receipt of a technical or legal query, the NAO's LACG team, or its legal adviser, will respond within three working days, or within ten working days where the team needs to undertake further research or contact third parties to provide a substantive reply.

In the case of legal queries, if the LACG team and its legal adviser believe that the query requires substantial support to the auditor – for example, assistance in drafting an audit report or similar output from the audit or, in effect, working as a member of the audit team – the LACG team will notify the auditor that they may wish to seek more substantial assistance direct from their own legal adviser.

What should auditors do?

Auditors should familiarise themselves with the guidance that the NAO issues. Auditors need to ensure that they identify and have regard to guidance relevant to their audit work.

Auditors should also familiarise themselves with how their firms engage with the NAO to inform the provision of relevant and timely guidance. This AGN includes guidance on how the NAO engages with the firms and how auditors share information on emerging issues.

Centrally provided support to auditors


What is the issue?

In recognition of the economies of scale that arise from providing specified support services to auditors centrally the NAO contracts with specialist legal, actuarial and valuation experts to support its guidance to auditors.

Legal advice is provided to the NAO by Bates Wells & Braithwaite (BWB) and this forms part of the capacity available to respond to auditors' technical and legal queries to LACG.queries@nao.gsi.gov.uk as set out above.

Actuarial advice is provided to the NAO by PwC to support auditors' work in relation to employee benefits at local bodies.

Valuation advice is provided to the NAO by Gerald Eve to support auditors' work in relation to property, plant and equipment at local bodies.

 <p>National Audit Office</p>	<p style="text-align: right;">AGN01 General Guidance Supporting Local Audit Issued on 1 April 2015</p>
--	---

In addition, the NAO shares with auditors certain other centrally provided information to support auditors' work at local bodies. Planning guidance in AGNs 05 and 06 provides more detail on the information that is provided and when it is available to auditors.

What should auditors do?

Auditors should familiarise themselves with the arrangements for making technical and legal queries to LACG.queries@nao.gsi.gov.uk as set out in the AGN.

Auditors should also familiarise themselves with the plans and timetables set out in AGNs 05 and 06 for issuing actuarial, valuation and other centrally provided information.

Engagement with the NAO and sharing information


What is the issue?

To support the provision of guidance the NAO engages with local auditors. To help identify emerging issues and to support consistency between auditors it is important that auditors share relevant information with the NAO and each other. However, auditors also need to comply with relevant legal and professional requirements relating to the sharing of information with the NAO and each other.

The NAO chairs a Local Auditors Advisory Group (LAAG). This group includes senior representatives from the firms that carry out local audit work and is supported by technical networks covering:

- NHS audits;
- local government audits; and
- smaller authorities' assurance work.

LAAG is a more strategic group, which also provides advice to the NAO in support of its responsibility for the Code, whereas the technical networks are generally convened by conference telephone call and can respond more quickly to emerging issues.

 <p>National Audit Office</p>	<p style="text-align: right;">AGN01 General Guidance Supporting Local Audit Issued on 1 April 2015</p>
--	---

To inform the development of relevant and timely guidance, and to support the C&AG's statutory functions in relation to the Code, auditors are strongly encouraged to bring to the attention of the NAO information on emerging issues.

What should auditors do?

Auditors should understand how their firm engages with the NAO's LAAG and technical networks and share information, as appropriate, with their firm's representatives on these groups.

Using their firms' internal arrangements for raising issues and liaising with the NAO, auditors should also bring to the attention of the NAO relevant information on emerging issues by emailing the LACG team at LACG@nao.gsi.gov.uk. In doing so, auditors will need to comply with relevant confidentiality requirements, for example by not naming specific bodies or individuals, and only bring to the attention of the NAO sufficient information to understand the nature of the issue to help inform the development and provision of relevant and timely guidance to auditors.

Co-operation and using the work of other local auditors


What is the issue?

Local bodies commission and deliver services in a range of partnerships and other forms of joint working, which requires auditors, in meeting their statutory duties, to consider how best to obtain assurance over such arrangements. The Code sets out principles that underpin co-ordination and integration. The NAO will keep under review this section of the AGN to consider whether it would be helpful to provide any further guidance.

What should auditors do?

Auditors should consider how they can best co-operate and use the work of other external auditors, inspectorates and other bodies in support of their responsibilities.

Auditors should also bring to the attention of the NAO and other auditors information that will support the functions of the NAO and auditors under the

 <p>National Audit Office</p>	<p style="text-align: right;">AGN01 General Guidance Supporting Local Audit Issued on 1 April 2015</p>
--	---

Act, while also complying with relevant legal and professional requirements relating to disclosure of information.

Whistle-blowing

What is the issue?

Individuals may seek to bring to the attention of auditors information which they assert is a protected disclosure under the Public Interest Disclosure Act (PIDA). It is important that such contacts and disclosures are handled by auditors appropriately.

What should auditors do?


Auditors need to be aware that they are prescribed persons under PIDA. Auditors will need to follow their firm's procedures for receiving and considering disclosures under PIDA.

Auditors should be aware that PSAA and the C&AG are also prescribed persons under PIDA. It is, therefore, possible that PSAA and/or the C&AG may receive disclosures under PIDA which PSAA or the NAO, on behalf of the C&AG, consider need to be brought to the attention of the auditor because they consider that the disclosure may be relevant to the duties and powers of the auditor. In such cases PSAA or the NAO will bring the relevant information to the attention of the appropriate engagement lead or manager in the firm responsible for the audit of the body to which the information relates.

If auditors receive information that they consider is relevant to the C&AG as a prescribed person, they should read the NAO's guidance on such disclosures (<http://www.nao.org.uk/contact-us/whistleblowing-disclosures/>) which includes details of how to contact us.

Raising technical issues or queries on this AGN

Auditors in firms should raise queries within the firm, in the first instance, so that the relevant technical support service can consider whether to refer queries to the NAO's Local Audit Code and Guidance (LACG) team by e-mailing LACG.queries@nao.gsi.gov.uk

 <p>National Audit Office</p>	<p>AGN01 General Guidance Supporting Local Audit Issued on 1 April 2015</p>
--	--

The NAO also engages with the firms through its Local Auditors Advisory Group (LAAG) and supporting technical networks to consider any emerging regime-wide technical issues on a timely basis. Auditors should follow their in-house arrangements for bringing significant emerging issues to the attention of their firm’s representative on LAAG or the relevant technical network.