



Auditor Guidance Note 1 (AGN 01)

General Guidance Supporting Local Audit

Version issued on: 21 December 2017

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, which means that they must take into account the guidance issued by the NAO, and, if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance. 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.



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

AGN 01 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 (AGN 01) addresses matters of a recurring nature and sets out the overall framework for issuing guidance, and for providing other support to auditors, which came into effect from 1 April 2015 when the C&AG took on the statutory responsibility under Section 20(6) of the Act. However, auditors should note any specific application dates set out in this and other AGNs.

Throughout AGN 01, 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. Statutory and contractual requirements are not duplicated in this AGN.



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Guidance Provided by the NAO

What is the issue?

1. Auditors are required to have regard to statutory guidance issued by the NAO on behalf of the C&AG. The term 'have regard to' means that auditors must take into account the guidance issued by the NAO on behalf of the C&AG, and, if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance.
2. The C&AG's statutory guidance is issued in the form of Auditor Guidance Notes (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 Powers and Duties

AGN05: NHS Audit Planning

AGN06: Local Government Audit Planning

AGN07: Auditor Reporting

What should auditors do?

3. 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.

Supporting Information for Auditors

What is the issue?

4. The NAO recognises that it can be helpful to issue to auditors information and other material in support of the C&AG's statutory guidance set out in AGNs. For example, *AGN03: Auditors' Work on Value for Money Arrangements* is supported by web-based information that auditors may wish to refer to when carrying out their work. However, auditors are not required to 'have regard to' supporting information because it does not have the status of statutory guidance.
5. The NAO also recognises the economies of scale that arise from providing specified information to auditors centrally through contracts with specialist legal, actuarial and valuation experts to support its guidance to auditors.
6. The NAO provides:

Weekly Auditor Communications (WACs)

7. The NAO issues Weekly Auditor Communications (WAC), and less frequently special auditor communications (SACs), to each firm.
8. The WAC is for information. However, the WAC may draw attention to guidance that has been issued by the NAO on behalf of the C&AG in AGNs to which, as noted above, auditors must have regard.
9. 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 foundation trusts (FTs).

Other items for information

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

Responses to technical and legal queries

10. The NAO receives and responds to regime-wide technical and legal queries from the firms. However, firms should 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

11. 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

12. Where an auditor has a query, 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: guidance published by the Financial Reporting Council on the application of UK accounting and auditing standards, and the NAO's VFM arrangements guidance (see AGN03) and guidance on auditors' additional powers and duties (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.org.uk
 - Specify the query as closely as possible, stating:
 - the information sought;
 - any background information;
 - the steps already taken; and
 - a deadline for a response.
13. Sending queries to the LACG.Queries@nao.org.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.

Responsibilities of the LACG team

14. 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.
15. 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, direct assistance and advice on 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?

16. Auditors should maintain arrangements to ensure that audit teams are familiar with the protocol covering technical and legal queries to LACG.Queries@nao.org.uk.

Engagement with the NAO and Sharing Information

What is the issue?

17. 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.
18. 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;
 - value for money arrangements work; and
 - smaller authorities' assurance work.

19. 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.
20. 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?

21. 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.
22. 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.org.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?

23. 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?

24. 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.
25. 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 Act, while also

complying with relevant legal and professional requirements relating to disclosure of information.

Whistle-blowing

What is the issue?

26. 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?

27. 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.
28. Auditors should be aware that Public Sector Audit Appointments Ltd (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.
29. 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.

Integrity, Objectivity and Independence

What is the issue?

30. Auditors of local public bodies have statutory responsibilities which they exercise as public office-holders. Therefore, in meeting their responsibilities auditors should be mindful of the principles of public life¹ that apply to audited bodies in the public sector.
31. The public expects to have confidence in those who audit, on its behalf, public bodies spending taxpayers' money. Regardless of how local auditors are appointed there is a clear expectation, in professional requirements, that they carry out their work with **integrity, objectivity and independence**.
32. Auditors are appointed under various arrangements and in each case must comply with the Act, the Code, guidance issued by the C&AG and contractual obligations including relevant terms of appointment. A brief summary of auditor appointment arrangements is appended to this AGN, for information only, and illustrates how contractual terms of appointment interrelate with the statutory requirements and guidance.

What should auditors do?

33. Auditors must carry out their work with integrity, objectivity and independence at all times and must not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest.
34. Auditors should familiarise themselves with, and comply with, all relevant requirements designed to ensure the integrity, objectivity and independence of the audit. In particular, auditors of all local public bodies subject to the Code should comply with the Financial Reporting Council's (FRC's) ethical standard.
35. In addition, auditors should have regard to the guidance in this AGN and its **Annex** which supplements and explains the provisions in the Code relating to safeguarding integrity, objectivity and independence. Auditors should also familiarise themselves with the requirements of those charged with oversight of the auditor's independence² and comply with relevant terms of appointment.

¹ The seven Nolan principles of public life are selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

² Those charged with oversight of the auditor's independence include auditor panels and any appointing person under the Act as well as the FRC and recognised supervisory bodies.

36. The FRC's ethical standard recognises that in the public sector the scope of the audit is wider than the entity's financial statements. Therefore, for the purposes of applying ethical requirements, local audit comprises all the work that the auditor carries out under the Act and the Code.
37. The FRC's ethical standard includes requirements that are applicable to 'public interest entities'³. Local public bodies that are audited under the Act are generally not 'public interest entities'. However, where a local public body meets the definition of a 'public interest entity' auditors should apply the relevant requirements of the FRC's ethical standard.
38. It is important to maintain confidence in the arrangements for safeguarding integrity, objectivity and independence in the audits of all local public bodies. In respect of those local bodies that are not defined as 'public interest entities' the **Annex** to this AGN sets out supplementary guidance on meeting the requirements of the Code. The guidance set out in the **Annex** to this AGN applies to audits of accounts for periods starting on or after 17 June 2016.
39. When applying the guidance in this AGN to their work, auditors should always keep in mind the 'third party test' set out in the FRC's ethical standard which is that:
- '... consideration of whether the ethical outcomes required by the overarching principles and supporting ethical provisions have been met should be evaluated by reference to the perspective of **an objective, reasonable and informed third party**'.*
40. Those charged with oversight of the auditor's independence are responsible for establishing, and in some cases advising local bodies on, policies and arrangements for ensuring compliance with relevant ethical requirements. For example, FTs are required⁴ to adopt and implement a policy for considering and approving proposals for non-audit work to be provided by the auditor. Similarly, those charged with oversight of the auditor's independence for other local public bodies will need to put in place arrangements – for example, through relevant terms of appointment, where applicable – by which requests for non-audit work, or other matters relating to the application of ethical requirements, are considered and, if appropriate, approved.

³ The definition of a public interest entity is set out in Article 2.13 of Directive 2006/43/EC – commonly referred to as the Audit Directive. The UK Government has not designated any bodies as public interest entities that do not meet this definition.

⁴ FTs are required to comply with NHS Improvement's *Risk Assessment Framework*.



Other Support and Raising Technical Issues or Queries on this AGN

41. 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.org.uk.
42. Information supporting auditors is available on the LACG extranet. This provides additional context and links to useful information sources where relevant. Updates will be communicated through the Weekly Auditor Communication (WAC). If there is a need for further statutory guidance during the year, the NAO may issue an addendum to this AGN.
43. 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 supplier's representative on LAAG or the relevant technical network.

ANNEX TO AGN 01 – SUPPLEMENTARY GUIDANCE ON ETHICAL REQUIREMENTS

44. **This Annex forms part of AGN 01 and sets out explanatory and supplementary guidance on the provisions of the Code relating to safeguarding integrity, objectivity and independence.** The Code requires auditors to comply with the FRC's ethical standard at all audits of local public bodies.
45. Auditors of any local public bodies that are 'public interest entities' (as defined for the FRC's ethical standard) comply with the requirements of the standard applicable to auditors of 'public interest entities'. Auditors of local public bodies that are not 'public interest entities' should have regard to the guidance set out below in addition to complying with the FRC's ethical standard.

Non-audit services

Local public audit is wider in scope than the financial statements and includes other responsibilities such as the need to consider arrangements to secure value for money or to consider the exercise of the auditor's additional powers and duties under the Act. Therefore, audit work is defined as all work carried out under the Code.

When the auditor provides to the audited local public body, or its controlled undertakings, non-audit services (other than the services listed in paragraphs 1 and 2 below), the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70%⁵ of the total fee for all audit work carried out in respect of the audited entity under the Code for that year.

Non-audit services that are excluded for the purposes of applying the 70% cap as defined above are:

1. the following **prohibited non-audit services** which cannot be provided to an audited local public body while the firm is, or is proposed to be, the auditor –
 - a) tax services relating to:
 - i. preparation of tax forms;

⁵ Although the 70% cap is similar to the limit applicable to public interest entities at 4.34R of the FRC's ethical standard, the definition used in this AGN is the one applicable to local public bodies which are not public interest entities. The definition of the nature and extent of services to take into account when applying the cap in this AGN has been tailored to the specific circumstances of local public bodies.

- ii. payroll tax;
 - iii. customs duties;
 - iv. identification of public subsidies and tax incentives unless support from the auditor in respect of such services is required by law;
 - v. support regarding tax inspections by tax authorities unless support from the auditor in respect of such inspections is required by law;
 - vi. calculation of direct and indirect tax and deferred tax; or
 - vii. provision of tax advice,
- b) services that involve playing any part in the management or decision-making of the audited body,
 - c) bookkeeping and preparing accounting records and financial statements,
 - d) payroll services,
 - e) designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems,
 - f) valuation services, including valuations performed in connection with actuarial services or litigation support services,
 - g) legal services, with respect to:
 - i. the provision of general counsel;
 - ii. negotiating on behalf of the audited body; or
 - iii. acting in an advocacy role in the resolution of litigation,
 - h) services relating to the audited body's internal audit function,
 - i) services linked to the financing, capital structure and allocation, and investment strategy of the audited body, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited body,
 - j) promoting, dealing in, or underwriting shares in an entity controlled by the audited body,

- k) human resources services, with respect to:
 - i. management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit where such services involve searching for or seeking out candidates for such positions, or undertaking reference checks for such positions;
 - ii. structuring the organisation design; and
 - iii. cost control.

2. the following other **services which can be provided** by the auditor, which are explicitly excluded for the purposes of applying the 70% cap –

- a) audits or examinations of controlled entities, including charities, consolidated into the accounts of local public bodies;
- b) services to the parent undertaking of a local public body where the parent undertaking is a government department (for example the Department of Health) or a relevant national body (for example NHS England) and where such services are inconsequential to, and remote from, the decision-making of the local audited body;
- c) other assurance (such as work on the quality accounts of local health bodies or work on grant claims and returns at local authorities) where such assurance is mandated by legislation or by a relevant national body or regulator; and
- d) any other services required by European Union or national legislation to be performed by the auditor.

By way of a derogation from paragraph (1) above, the services referred to in points (a)(i), (a)(iv) to (a)(vii) and (f), may be provided (but would be included for the purposes of applying the 70% cap) if the following requirements are complied with:

- a) they have no direct or, in the case of an objective, reasonable and informed third party, would have an inconsequential effect, separately or in the aggregate on the audited financial statements, or on the audited body's arrangements to secure value for money;
- b) the estimation of the effect on the audited financial statements, or on the audited body's arrangements to secure value for money, is

comprehensively documented and explained to those charged with governance;

- c) the principles of independence laid down in section 1 of the FRC's ethical standard are complied with; and
- d) for the purposes of giving an opinion on the financial statements and/or, where appropriate, reaching a conclusion on arrangements to secure value for money, the auditor would not place significant reliance on the work performed in carrying out these services.

Where there are doubts about whether a service would have an inconsequential effect on the financial statements, or arrangements to secure value for money, in the view of an objective, reasonable and informed third party, then the effect is not regarded as inconsequential.

Audit-related services

Non-audit work, for the purposes of applying the 70% cap referred to above, includes audit-related services (other than those services which are listed above and which are explicitly excluded from the calculation). Audit-related services are:

- reporting required by law or regulation to be provided by the auditor;
- reviews of interim financial information;
- reporting on regulatory returns;
- reporting to a regulator on client assets;
- reporting on government grants, where such reporting is not mandated by legislation or by a relevant national body or regulator;
- reporting on internal financial controls when required by law or regulation; and
- extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.

Relationships with audited bodies

Membership of, and other links with, audited bodies

The requirements of the ethical standard relating to ‘financial, business, employment and personal relationships’ are applicable to audits of all local public bodies.

The ethical standard gives examples of relationships that are not acceptable but these do not explicitly address relationships that may arise in all circumstances. In relation to the audits of local public bodies no partner, director or employee of the audit firm should:

- accept or hold a governance role, whether elected or appointed, with significant influence over the decision making or financial statements of an audited body for whom the firm is, or is proposed to be, the auditor;
- be employed as a senior officer (whether paid or unpaid) – such as a chief financial officer at a local authority – at an audited body for whom the firm is, or is proposed to be, the auditor;
- accept or hold a governance role, whether elected or appointed, with an entity or joint arrangement which is material or significant to an audited body for whom the firm is, or is proposed to be, the auditor;
- where they are directly involved in the management, supervision or delivery of local audit work, take part in political activity, such as canvassing or standing for office or acting as a spokesperson, on behalf of a political party or special interest group, whose activities relate directly to the functions of a local public body audited by the firm; and
- have any other relationship with the local public body that would compromise independence.

Smaller authorities

46. Firms that carry out limited assurance reviews of the annual returns prepared by smaller authorities carry out their work under the Act, the Code and AGN 02 issued by the NAO on behalf of the C&AG.

47. Limited assurance reviews are not carried out under the auditing and ethical standards issued by the FRC and so firms that carry out such reviews should maintain arrangements to safeguard their integrity, objectivity and independence in respect of their work at smaller authorities. Such arrangements should be capable of satisfying an objective, reasonable and informed third party that there are no perceived or actual threats that would compromise integrity, objectivity or independence. In particular, arrangements should ensure that:
- the firm does not provide to a smaller authority any of the prohibited services listed at paragraph 1 in the section 'non-audit services' above; and
 - any work, other than that carried out under the Code, does not exceed the higher of £250 or 20% of the total fee for the work under the Code.

Effective date and implementation

48. The guidance set out in this Annex applies to audits of accounts for periods starting on or after 17 June 2016.
49. Audit firms may complete engagements relating to periods commencing before 17 June 2016 in accordance with applicable ethical requirements, putting in place any necessary changes in the subsequent period.
50. Engagements to provide non-audit services that fall into the categories listed at paragraph (1), under non-audit services above, or which would lead to the total value of non-audit services exceeding the 70% cap, may continue until currently active services are completed in accordance with the engagement terms as long as:
- the engagement was permitted under ethical requirements applicable when commenced; and
 - safeguards established continue to be applied.
51. A currently active service is one where the entity has already asked for advice in relation to a particular matter and the firm has commenced work in relation to that matter. It does not include advice on future matters that may, for example, be provided for in an open-ended engagement/contract.
52. If auditors consider that there are objective, proper and legitimate reasons why it would not be possible to follow the guidance in this Annex, they should set out their reasons within their audit documentation. In such circumstances, which are expected to be exceptional, the auditor should first discuss and agree the need for a departure from the guidance in this Annex with those charged with governance at the audited body (such as an audit committee) and/or, where applicable, with those charged with



oversight of the auditor's independence (such as an auditor panel or appointing person under the Act). The audit team should also obtain the agreement of the firm's ethics partner to departures from the guidance in this Annex and, in such circumstances, safeguards should be implemented that would be capable of satisfying an objective, reasonable and informed third party that there are no perceived or actual threats that would compromise integrity, objectivity or independence.

APPENDIX – AUDITOR APPOINTMENT ARRANGEMENTS

This Appendix is for information only and does not form part of the guidance set out in AGN 01 and its Annex.

Foundation trusts

The FT's council of governors 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 NHS Improvement's guidance on appointment. The auditors must agree the terms of engagement with the FT in the form of a letter (letter of engagement⁶), and it is the FT that is responsible for contract management.

Other local health bodies

Local health bodies, other than FTs, are responsible for appointing auditors with effect from the audits of 2017-18 accounts. The Department of Health has issued guidance to clinical commissioning groups and NHS trusts on appointing auditors under the Act. The auditors must agree the terms of engagement with the relevant local health body in the form of a letter of engagement, and the local body is responsible for contract management.

Smaller authorities

New arrangements for appointment of auditors of smaller authorities take effect from the reviews of 2017-18 annual returns. The Secretary of State has specified an appointing person, Smaller Authorities Audit Appointments Ltd (SAAA), to appoint auditors who must meet relevant obligations under their contracts with SAAA. Those smaller authorities that opt out of SAAA's arrangements will be responsible for agreeing terms of appointment with auditors.

Local government bodies (other than smaller authorities)

New arrangements for appointment of auditors of local government bodies, other than smaller authorities, take effect for audits of 2018-19 accounts. Either local government bodies themselves will, individually or jointly, make appointments, based on advice from a local auditor panel, or they will opt into arrangements overseen on their behalf by the

⁶ Where a letter of engagement is required its content must be consistent with the requirement for the audit to be carried out in accordance with the Act, the Code and guidance issued by the C&AG (including this AGN).

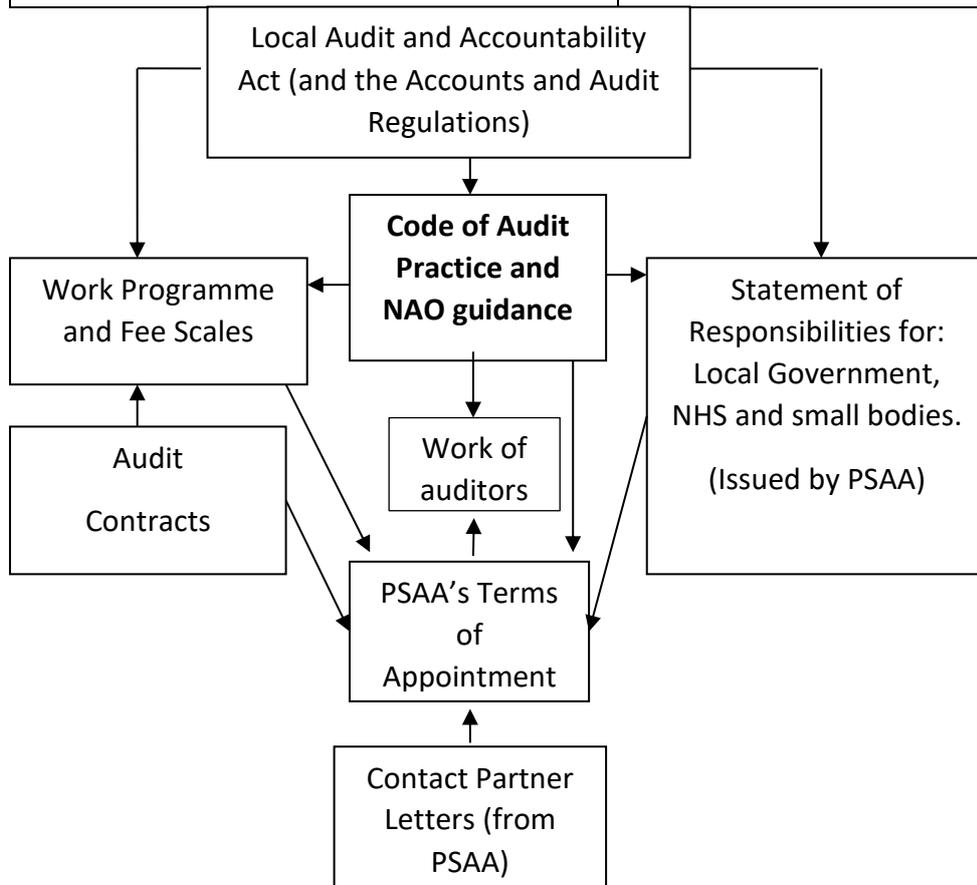


appointing person, Public Sector Audit Appointments Ltd (PSAA), specified by the Secretary of State for this purpose. This means that, for local government bodies, there will be two scenarios:

- where local government bodies themselves make appointments, auditors must agree the terms of engagement with the relevant local authority in the form of a letter of engagement, and the local authority is responsible for contract management; or
- where the appointing person, PSAA, makes the appointment, auditors must meet relevant obligations in their terms of appointment under contracts with PSAA.

Until new auditor appointment arrangements are fully implemented under the Act, PSAA continues to be the transitional body responsible for holding and managing contracts with auditors originally appointed under the Audit Commission Act 1998. Where auditors continue to work under contracts with PSAA as the transitional body they must meet their obligations under their terms of appointment.

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



To contact PSAA or the NAO the following emails have been set up:

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

Technical and legal queries to the NAO: LACG.Queries@nao.org.uk

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