



## Auditor Guidance Note 7 (AGN 07)

### Auditor Reporting

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.

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



National Audit Office

AGN 07  
Auditor Reporting  
Issued on 21 December 2017

AGN 07 is relevant to all local auditors of bodies covered by the Local Audit and Accountability Act 2014 and the *Code of Audit Practice* including auditors of foundation trusts.

## Introduction

This AGN sets out guidance on the application of the requirements of the NAO *Code of Audit Practice* (the Code) for auditors when reporting the results of their audit work. Auditors of smaller authorities should have regard only to sections 1 and 3 of this AGN, and should refer to AGN 02 for detailed guidance in respect of annual reporting.



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## Section 1: General Principles

### Objectives of Reporting

1. Reporting is fundamental to auditing. It is the way in which auditors communicate the results of their work in order to fulfil their legal and professional responsibilities. Effective reporting is the primary means by which auditors' work achieves its impact.
2. Paragraph 1.9 of the Code emphasises that auditors should use the most effective means of reporting in support of their statutory functions:
  - **'Transparency and public reporting'**  
1.9 The auditor has a range of means at their disposal, set out in the relevant legislation, by which their findings may be reported publicly. The auditor should report on a timely basis without fear or favour, using their professional judgement on the most appropriate and effective means of reporting.'

### Principles of Public Audit

3. Local auditors are public office holders with statutory duties and powers which they exercise in their own right and in the public interest. The [Public Audit Forum](#) (PAF) has set out principles of public audit which include:
  - 'The ability of public auditors to make the results of their audits available to the public, to democratically elected representatives and other key stakeholders. To be effective, there must be appropriate reporting arrangements, under which auditors report the results of their work both to the bodies responsible for funding and to the public.'
4. Local auditors should always keep in mind this principle of public audit when considering how to report their findings and the results of their audit work.

### Principles of Effective Reporting

5. The Code requires auditors to comply with auditing standards but also recognises at paragraph 1.12 that it may be appropriate for the C&AG to issue guidance on the application of the Code to meet particular circumstances. This AGN recognises that there are particular circumstances relating to the audit reporting requirements for local bodies which impact on the application of auditing standards to local audits.

6. In particular, local public bodies are subject to audit under legislation and the Code, which gives auditors various reporting duties and powers. The scope of local public audit, which includes consideration of arrangements to secure value for money (VFM), is wider than that reflected in auditing standards. The range of means of reporting available to local auditors is also greater than is typically the case for auditors in other sectors where auditing standards apply and, for all local bodies except NHS foundation trusts (FTs), includes a requirement to issue an annual audit letter which must be published.
7. Therefore, in recognition of these particular circumstances, local auditors should use their professional judgement to apply the principles of effective reporting set out in this AGN through the range of reporting available to them.
8. The principles of effective reporting in this AGN build upon those that underpin auditing standards. The principles in this AGN also reflect the wider scope of local public audit. Therefore, local auditors should:
  - report on a timely basis, clearly, concisely and objectively without fear or favour;
  - when reporting in public, use language that readers will understand;
  - use the most appropriate form of reporting available in the expectation that audited bodies ensure that the report is sufficiently prominent and accessible to people when published;
  - set out to whom the report is addressed, the period to which it relates, its date, its purpose and the relevant duty or power under which the auditor is issuing it;
  - reflect the wider scope of public audit by covering the range of audit responsibilities under the Code, which therefore includes reporting the auditor's judgments on significant risks in respect of arrangements to secure VFM;
  - be open and transparent about the scope and nature of the work carried out, significant risks and judgements such as the application of materiality, key findings, and, where appropriate, the type and level of assurance that the report provides across the range of audit responsibilities under the Code; and
  - if making recommendations, be clear about what actions the audited body should take and when.

## Section 2: Annual Reporting

### Introduction

9. Schedule 1 of the Code sets out the auditor's statutory responsibilities according to the type of local body. A number of these relate to reporting, with further detail on the auditor's reporting responsibilities provided in Chapter Four of the Code.
10. The requirements applicable to bodies other than FTs are derived from the Local Audit and Accountability Act 2014 (the 2014 Act). The National Health Service Act 2006 (the 2006 Act) applies to the audits of FTs. [Schedule 10, paragraphs 3 to 5, of the 2006 Act](#) sets out the auditor's duties in relation to reporting the results of their audit work. The 2006 Act continues to apply to the audits of FTs but was amended by the 2014 Act to require FT auditors to comply with the Code prepared and published by the C&AG.
11. This section of the AGN covers annual reporting by the auditor under the Code. In particular, it provides guidance on:
  - audit planning;
  - reporting to those charged with governance;
  - the audit report;
  - the annual audit letter; and
  - audit completion certificate.

### Audit Planning

12. Section 4.2 of the Code requires auditors to report how they plan to meet their responsibilities based on their assessment of risks. The audit planning report should cover both the work on the audit of the financial statements, and the work needed in respect of the audited body's arrangements to secure VFM.
13. The planning report should include the overall audit strategy and how this relates to the auditor's risk assessment. The planning report should also include an initial assessment of significant risks to the conclusion on VFM arrangements, and planned work in accordance with *AGN 03 – Auditors' Work on Value for Money (VFM) Arrangements*.
14. Where any actions have been agreed in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM, the planning report should include reference to consideration of progress against previously agreed recommendations.

15. The audit planning report should facilitate timely discussion between the auditor, management and those charged with governance, to demonstrate how the auditor's responsibilities will be met under the Code. Auditors determine who those charged with governance are, for the purpose of meeting their responsibilities under the Code, as this varies depending on the nature of the audited body.
16. The auditor should keep their initial risk assessment and planning under review, and if appropriate, should issue an additional planning report or update the report previously issued. Any change should be discussed with management and with those charged with governance.
17. Auditors will wish to refer to their and audited bodies' respective roles and responsibilities when reporting their plans. During the period when Public Sector Audit Appointments Ltd (PSAA) is responsible for determining auditors' terms of appointment for bodies other than FTs, auditors can cross-refer to the statement of roles and responsibilities on PSAA's website. After this transitional period, when local appointment of auditors is implemented, all auditors will wish to refer to relevant letters of engagement.

## Report to Those Charged With Governance

18. Section 4.2 of the Code requires auditors to report the results of their audit work to those charged with governance.
19. The report to those charged with governance needs to meet the requirements of ISA (UK) 260<sup>1</sup>, but also needs to cover auditors' work on VFM arrangements and any other reporting matters in relation to auditors' additional powers and duties.
20. Wherever possible, the report to those charged with governance should be issued as one document covering all of the auditor's work and responsibilities under statute and the Code. In the interests of promoting transparency in the audit process, in addition to the reporting requirements in respect of the audit of the financial statements, the report to those charged with governance should include:
  - a description of those assessed significant risks to the conclusion on arrangements to secure VFM, as identified by the auditor;
  - where the VFM arrangements risk assessment has been revisited and has changed during the year, auditors should also report this to those charged with governance;

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<sup>1</sup> ISA (UK) 260 (Revised June 2016) Communication With Those Charged With Governance

- an overview of the scope of the work on arrangements to secure VFM, and an explanation of how the auditor's work addressed any identified significant risks to the conclusion on arrangements to secure VFM;
  - the audit findings from work on any identified significant risks to the conclusion on arrangements to secure VFM, or a statement that there is nothing to report;
  - the auditor's views about significant qualitative aspects of the body's arrangements for delivering economy, efficiency and effectiveness;
  - any significant difficulties encountered when undertaking the work;
  - significant matters, if any, arising from auditors' work on areas other than the financial statements that were discussed, or subject to correspondence, with management;
  - any other matters arising from the work that, in the auditor's professional judgement, are significant to the auditor's consideration of arrangements to secure VFM;
  - the proposed conclusion on arrangements to secure VFM and, where any form of qualification is proposed ('except for' or 'adverse'), set out the basis for the qualification and the evidence supporting the judgement. A draft of the proposed wording, where available, may be helpful in facilitating a discussion of how this will be addressed in the auditor's report; and
  - the results of any additional work undertaken in accordance with their statutory powers and duties.
21. Auditors should satisfy themselves that the report to those charged with governance is considered at an appropriate level within the relevant audited body. (Where FTs are in special administration, the report to those charged with governance should be addressed to the Trust Special Administrator.)
22. Auditors should use the report to help those charged with governance to understand the audit process, key risks and judgements, and findings in advance of issuing their opinion on the financial statements and their conclusion on arrangements to secure VFM. The report should refer back to the audit planning report (and any relevant interim reports or updated planning documents), while also providing the basis for the material needed for the audit report and, where relevant, the annual audit letter.
23. Auditors should seek to maximise the extent to which the report to those charged with governance feeds in to other reporting outputs in order to support the timeliness and efficiency of other audit reporting.
24. For those bodies, for example FTs, which are required by a relevant regulator to adopt corporate reporting requirements equivalent to those in the [UK Corporate Governance Code](#), or do so voluntarily, auditors should also communicate matters that are relevant

to the board and the audit committee, or their equivalent, in respect of the board's requirement to make a statement that the annual report is fair, balanced and understandable.

## Audit Report

25. At the conclusion of the audit, the Code requires auditors to issue an audit report<sup>2</sup>.

Section 4.2 of the Code requires the audit report to cover:

- the results of the auditor's work on the financial statements as set out at paragraphs 2.6 to 2.12 of the Code, including consideration of other information published together with the audited financial statements (including the Annual Governance Statement, the annual report and remuneration report where appropriate);
- the results of the auditor's work on the audited body's VFM arrangements as set out at paragraphs 3.5 and 3.16 of the Code. Note that for health service bodies, where the auditor has no issues to report, they should confirm this under the 'matters on which we report by exception' section of the audit report. Where the auditor has matters to report, they should issue a separate qualified conclusion; and
- by exception, any report by the auditor on a range of additional matters as set out in the Code: *Schedule 2 – Audit report: Inclusion of additional matters by exception*.

26. The partner or director who is the relevant engagement lead should sign the audit report with their name as well as the name of the firm of auditors.<sup>3</sup>

27. Auditors should seek to keep the audit report concise and, where relevant, use the annual audit letter as the means of providing fuller and more accessible reporting to the public.

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<sup>2</sup> In this AGN 'audit report' means the outputs required by Section 20 of the 2014 Act (for bodies other than FTs) and schedule 10 of the 2006 Act (for FTs).

<sup>3</sup> Auditors may sign the opinion in typeface or legible manuscript provided that both the name of the engagement lead and the firm is included and that the signature reflects the intention to authenticate the finalised audit report. Further details regarding arrangements for issuing the auditor's report at principal local government audits are available in supporting information separately provided to local auditors.

### 'Enhanced' reporting

28. Where the auditor concludes that a local authority meets the definition of a Public Interest Entity under the FRC's Revised Ethical Standard, they should adopt the additional 'enhanced' reporting requirements in ISA (UK) 700<sup>4</sup>, including the reporting of Key Audit Matters under ISA (UK) 701<sup>5</sup>. Auditors of such local authorities should note that under the Code an annual audit letter will also need to be published.
29. In the case of FTs, auditors adopt the additional 'enhanced' reporting requirements in ISA (UK) 700 and ISA (UK) 701, as FTs are required to comply with the *NHS Foundation Trust Code of Governance*. FT auditors may also issue an annual audit letter (or equivalent), where they consider that this will best support the objectives of transparent reporting.
30. Where auditors adopt the 'enhanced' reporting requirements in ISA (UK) 700 and ISA (UK) 701, they should ensure that reporting requirements in respect of the auditor's work on arrangements to secure VFM are still met. Auditors may choose to meet these requirements either by reporting their judgements on significant risks in respect of VFM arrangements in the 'enhanced' report, or alternatively by reporting them in an annual audit letter (or equivalent)<sup>6</sup>. Further information detailing the reporting requirements in respect of VFM arrangements are included in paragraph 46.

### The conclusion on arrangements to secure VFM

31. The requirements for reporting the auditor's conclusion on VFM arrangements differ between sectors. For bodies other than health bodies, the audit report should include the auditor's conclusion on VFM arrangements, whether qualified or not. For health bodies, including FTs, auditors are required to include the conclusion only if it is qualified, and include this in the audit report under items that auditors are required to report on by exception. If the auditor has no issues to report, they should also confirm this in the 'matters on which we report by exception' section. Any qualified conclusions should be included in the audit report and not, as was previously the case for FTs, within the certificate.

### Going concern

32. The introduction of revised auditing standards in June 2016 included changes to ISA (UK) 570<sup>7</sup> and ISA (UK) 700. If a material uncertainty in respect of going concern exists

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<sup>4</sup> ISA (UK) 700 (Revised June 2016) Forming an Opinion and Reporting on Financial Statements

<sup>5</sup> ISA (UK) 701 Communicating Key Audit Matters in the Independent Auditor's Report

<sup>6</sup> Auditors may also choose to report in both documents if they consider it appropriate.

<sup>7</sup> ISA (UK) 570 (Revised June 2016) Going Concern

which is not adequately disclosed in the financial statements, ISA (UK) 570 requires the auditor to modify their report. When reporting by exception on matters relating to going concern, auditors should note the options for reporting set out in paragraph paragraphs 21 to 24 of ISA (UK) 570. Auditors should refer to PAF's [Practice Note 10](#) and the relevant sections of *AGN 05 – NHS Audit Planning* and *AGN 06 – Local Government Audit Planning* for additional guidance in this area.

### Pension funds

33. For administering authorities, in many cases the opinion on the pension fund annual report will be given at the same time – or very shortly after – the opinion on the administering authority's financial statements. However, finalisation of the pension fund annual report in some cases may be as late as 1 December (the statutory deadline for publication).
34. Where the authority's audited accounts have already been published (or are published simultaneously) and these contain the pension fund financial statements, auditors need to report on whether the pension fund accounts within the pension fund annual report are consistent with the authority's accounts.

### Harbour authorities

35. Specific accounting and audit requirements<sup>8</sup> apply to harbour authorities in line with the requirements of the Harbours Act 1964. The only direct requirement placed on appointed auditors is in Section 42(5) which requires the authority to send a copy of the statement of accounts relating to harbour activities 'together with a copy of the auditor's report on it' to the Department for Transport (DfT).
36. The DfT is responsible for issuing guidance covering the accounting and reporting requirements for harbour authorities. Section 42 of the Harbours Act 1964 does not provide detail on the nature, scope and content of the auditor's report and so auditors may wish to refer to the supporting information issued on the LACG extranet.

### Consolidation returns

37. In addition to giving an opinion on the statutory accounts, auditors are also required to report on the consistency of certain consolidation returns with the statutory accounts. These are not provided within the audit report but take the form of a separate statement on relevant packs to support consolidation of health accounts and the preparation of Whole of Government Accounts (WGA). Auditors should refer to

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<sup>8</sup> Statutory Harbour Undertakings (Accounts etc.) Regulations 1983

guidance on these requirements in *AGN 05 – NHS Audit Planning* and *AGN 06 – Local Government Audit Planning*.

38. While it may be appropriate to issue the audit report prior to the completion on work on consolidation returns, auditors should not issue the certificate until the work is complete.

## Annual Audit Letter

39. The Code places a requirement on the auditor to produce an annual audit letter for all local bodies except FTs. The annual audit letter should cover the work carried out by auditors since the previous letter was issued. It should provide a clear, readily understandable commentary on the results of the auditor's work and highlight any issues that the auditor wishes to draw to the attention of the public.
40. An annual audit letter, where one is issued, should meet the objectives of 'enhanced' reporting. The annual audit letter should be a prominent and accessible form of reporting consistent with the principles of effective reporting set out in this AGN.
41. Auditors will have already reported to those charged with governance. The annual audit letter is a public facing document that draws directly on the contents of the report to those charged with governance. The letter should be written for a wider audience because it will be published by the audited body.
42. The annual audit letter should be issued either at the same time as the audit report or as soon as reasonably possible after this date. In the interests of timely and efficient reporting, auditors may draw on the report to those charged with governance when preparing the annual audit letter but may wish to tailor its language, style and presentation to make it more accessible.
43. When determining the appropriate time to issue the annual audit letter, the auditor should balance the need for timely reporting with the need to fully complete their work. Where auditors are considering issuing the letter while work remains outstanding, they should satisfy themselves that the remaining work will not identify any issues which would need to be reported. For example, in respect of WGA, if the auditor has performed sufficient work to satisfy themselves that this will not give rise to any additional key findings that would warrant inclusion in the annual audit letter, then in keeping with the principle of timely reporting, the auditor should issue the annual audit letter at this point. This principle is relevant to WGA work on bodies both above and below the threshold.
44. Where annual audit letters are issued before all work has been completed, auditors should ensure the basis for their decision is clearly documented.

45. In cases where the opinion on the financial statements and the VFM arrangements conclusion have been issued, but the certificate has been withheld due to an outstanding matter such as an objection or the consideration of other relevant information that may have come to the auditor's attention, the annual audit letter can still be issued. Where this is the case, the auditor should make clear within the annual audit letter that the audit remains open to enable the objection to be dealt with.
46. The annual audit letter should summarise key findings from across the range of the auditor's work and responsibilities under statute and the Code. In the interests of promoting transparency in the audit process, the letter should also include:
- a description of those assessed risks of material misstatement in the financial statements, and significant risks to the conclusion on arrangements to secure VFM, as identified by the auditor;
  - an explanation of how the auditor applied the concepts of materiality in planning and performing the audit including specifying the materiality threshold for the financial statements as a whole;
  - an overview of the scope of the audit, including an explanation of how it addressed the assessed risks of material misstatement and was influenced by the auditor's application of materiality, and an explanation of how the auditor's work addressed any identified significant risks to the conclusion on arrangements to secure VFM; and
  - the audit findings from work on each risk of material misstatement, or in response to any identified risks to the conclusion on arrangements to secure VFM, or in each case a statement that there is nothing to report.
47. Although there is no requirement to issue an annual audit letter for FTs, auditors may choose to do so, and the letter could be described as a 'letter to the governors'. However, auditors should only use this means of providing fuller reporting on the results of the audit if:
- the annual audit letter, or letter to governors, is produced at or soon after the conclusion of the audit; and
  - the FT has agreed to publish the letter on its website.
48. In the case of combined authorities, or in relation to bodies that form part of a single group for accounting purposes (such as in the police sector), it is acceptable to issue a joint annual audit letter covering the entities participating within the combined authority or which are part of the group. When taking this option the annual audit letter should be addressed to each entity and should clearly communicate the content relevant to each entity.

49. Preparing a joint annual audit letter is easier where the auditor is the same for each of the relevant entities. However, the Code supports co-operation between auditors even where there are different auditors for the various bodies in the group in circumstances where they agree to prepare a joint letter.

## Audit Completion Certificate

50. At the conclusion of the audit the auditor should issue the audit completion certificate. This closes the audit and marks the point when the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged.
51. The audit certificate is usually issued at the same time as the audit report. However, in certain circumstances an auditor may issue their opinion on the financial statements and conclude their work in respect of VFM arrangements but cannot conclude the audit. Examples of such situations include:
- where a local authority also has a pension fund for which the opinion on the financial statements in the pension fund annual report is yet to be issued;
  - where there is outstanding work to be performed in relation to consolidation returns (including Whole of Government Accounts); and/or
  - where there is an outstanding objection, or other matter that has come to the auditor's attention, which the auditor has concluded has no material impact on the presentation of the financial statements.
52. If an opinion and VFM arrangements conclusion is given in advance of concluding the audit, auditors need to consider when issuing the certificate if anything has come to their attention that might have a material effect on their opinion or VFM arrangements conclusion from the date of the earlier opinion and conclusion up to the date when the audit is concluded.
53. Where such issues are identified, auditors need to consider whether, if that information had been available when the opinion and VFM arrangements conclusion were given, a different opinion or VFM arrangements conclusion would have been given. If so, reference to that fact is required in the certificate. If no matters have come to the attention of the auditor that would have resulted in a different opinion or VFM arrangements conclusion being issued, a statement to that effect should be included in the audit certificate.



## Part-Year Reporting Requirements

54. Where the auditor is required to issue an audit report in respect of a body that demises during the year of account, the requirement to produce the annual audit letter and certify completion still apply in respect of the demising body.
55. As set out in *AGN 03 – Auditors’ Work on Value for Money (VFM) Arrangements*, the auditor is not required to issue a conclusion (or report by exception at a local NHS body), on a demising body’s VFM arrangements. The auditor is also not required to undertake a VFM arrangements risk assessment.
56. However, where the auditor is aware of significant weaknesses in a demising body’s arrangements, they should be brought to the attention of the successor body. This could, for example, be achieved through reporting to those charged with governance at the demising body, or through an annual audit letter, where one is issued.
57. For any new or successor bodies arising during the year of account, the full range of annual reporting as set out within Section 2 of this guidance is required.

## Section 3: Other Forms of Reporting

### Introduction

58. This section of the guidance is about auditor reporting which is discretionary. In particular, it covers:

- determining whether, how and when to report;
- interim reporting;
- statutory recommendations;
- public interest reports; and
- referral of matters arising.

59. Auditors should also have regard to the guidance in *AGN 04 – Auditors’ Additional Powers and Duties*.

### Determining Whether, How and When to Report

60. At each audit auditors should consider whether they need to use any of their discretionary powers to report. In particular, auditors are required to consider whether there is any matter on which they should report in the public interest<sup>9</sup>.

61. It is for the auditor to exercise their judgement and determine the most appropriate and effective means of reporting. When doing so, auditors should bear in mind the principles set out in paragraph 1.9 of the Code and the principles of effective reporting set out in this AGN. In particular, auditors should report on a timely basis and without fear or favour.

62. When considering whether, how and when to report, auditors should weigh up:

- the significance of the matter or weakness in arrangements which has come to their attention or which they have identified during the audit;
- whether the body itself recognises the need to address a concern and is taking appropriate action in a timely way;
- what information is already in the public domain and whether there is merit in bringing the matter to the attention of the public in the interests of openness, transparency and accountability or to facilitate dissemination of learning to other public bodies;

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<sup>9</sup> See paragraph 1 of Schedule 7 of the 2014 Act.

- which form of reporting is likely to be most effective in helping the audited body to understand the significance of the matter and the need to take action; and
  - whether previous reporting has been acted upon and, if not, whether more prominent reporting – such as issuing a statutory recommendation or a report in the public interest – is now necessary.
63. The auditor may consider the audited body's own governance or other annual reporting and whether it is sufficient to draw attention to the body's own reporting in the auditor's report to those charged with governance and, where relevant, annual audit letter. However, there will be some matters on which the auditor needs to report in a timely way or to achieve more prominence and impact.

### Interim Reporting

64. The Code allows, at any stage of the audit, the auditor to communicate the results of, or matters arising from, specific elements of their work to management and those charged with governance.
65. Auditors should comply with ISA (UK) 260, which requires the auditor to communicate with those charged with governance on a timely basis. Auditors should adopt a similar approach in respect of their work on VFM arrangements. Where an auditor identifies issues in the course of the audit which they wish to bring to the attention of management or those charged with governance, they should do so using the most appropriate means of communication.
66. Examples of situations where the auditor may wish to issue some form of interim report include:
- identification of issues that are likely to lead to a modified opinion or another form of public reporting;
  - where a significant difficulty has been encountered during the audit and those charged with governance are able to assist the auditor to overcome the difficulty;
  - where the auditor's risk assessment has been revisited and has changed during the year – for example in respect of the conclusion on arrangements to secure VFM, auditors should also report this to those charged with governance;
  - identification of significant deficiencies in internal control; or
  - completion of a significant piece of work which the auditor has identified is necessary as part of their work supporting the audit of the financial statements, or in respect of arrangements to secure VFM.

## Statutory Recommendations

67. An auditor may make recommendations about actions that the auditor thinks the body should take in response to the findings of an audit. In some circumstances the auditor may identify a need to make recommendations that must be considered by the body and responded to publicly.
68. Under the 2014 Act there are two types of statutory recommendations. These are recommendations under:
- Paragraph 2 of Schedule 7 ('schedule 7 recommendations'); or
  - Section 27 ('section 27 recommendations').
69. Statutory recommendations under schedule 7 may be issued to local government bodies of any type or local health bodies other than FTs; section 27 recommendations are not applicable to health service bodies.

### Schedule 7 recommendations

70. The ability to make a schedule 7 recommendation to an audited body, which the body must consider and to which it must respond publicly<sup>10</sup>, is a powerful tool for the auditor. A schedule 7 recommendation can be made during or at the end of the audit. The auditor can follow up the audited body's response to the recommendation as part of planned or future audit work.
71. Making a schedule 7 recommendation can be useful where the background to an issue is already in the public domain. They can:
- direct the audited body to respond to specific shortcomings or failures; or
  - assist in monitoring the audited body's progress on specific issues.
72. To be effective, a schedule 7 recommendation needs to be clearly worded so that it is obvious what the audited body should consider. It should also clearly set out what the audited body should do, and by when, in response to the recommendation. There is no right of appeal against a schedule 7 recommendation.

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<sup>10</sup> Note that in line with Schedule 7(5)(4)(b), NHS bodies are not required to respond publicly.

73. It is no longer a requirement under the 2014 Act, but is good practice for the auditor to identify a schedule 7 recommendation by referring to paragraph 2, Schedule 7 of the 2014 Act. This can be included within a separate specific letter or report to the audited body or within other written outputs such as an annual audit letter. The auditor should ensure that the audited body is aware of the statutory requirements for considering and responding to the recommendation as appropriate<sup>11</sup>.
74. The auditor must also copy a schedule 7 recommendation to the relevant Secretary of State. For Clinical Commissioning Groups, NHS England must also be notified<sup>12</sup>.

### Section 27 recommendations

75. The other type of statutory recommendation that an auditor can make is known as a section 27 recommendation. Under the 2014 Act the auditor may make a section 27 recommendation after considering an objection and concluding that there are no grounds for reporting in the public interest or applying to the court for a declaration that an item of account is unlawful, but the auditor has identified actions that the audited body should take to strengthen its processes or arrangements.
76. Section 27 recommendations do not impose requirements on audited bodies for public consideration and response, and auditors are not required to send a copy of these recommendations to the relevant Secretary of State.

### Reports in the Public Interest

77. Section 4.3 of the Code sets out the auditor's responsibility to consider whether, in the public interest, they should report on any matter that comes to their notice so that it is brought to the attention of the audited body and the public. Schedule 7 of the 2014 Act, and in particular paragraphs 1, 3 and 4, sets out the auditor's powers to issue a public interest report and the process that must be followed by the auditor and the audited body which is the subject of the report. For FTs, paragraphs 3-4 of Schedule 10 of the 2006 Act include a similar requirement for auditors to consider the need for a public interest report.
78. Reporting in the public interest is one of the highest profile powers available to the auditor and is one which is taken particularly seriously by audited bodies and commentators. The body has to consider and respond to the report and there are also

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<sup>11</sup> Note that in line with Schedule 7(5)(4)(b), NHS bodies are not required to respond publicly.

<sup>12</sup> Further details regarding arrangements for copying schedule 7 recommendations to the relevant Secretary of State are available on the LACG extranet in the supporting information to this AGN.

publicity requirements that audited bodies must fulfil if they receive a public interest report.

79. In considering whether to make a public interest report, and when preparing to issue one, the auditor must act fairly, objectively and in accordance with the principles of natural justice.
80. If an auditor identifies a matter for which they feel the issue of a public interest report would be appropriate, they should consider whether the matter is sufficiently important to be brought to the attention of the audited body and the public, and if the public interest would best be served by publicising the issue of concern.
81. A public interest report would be the most appropriate form of reporting when, for example, the auditor considers that it is the most effective way to:
- ensure a matter is considered by the audited body, or brought to the attention of a connected entity<sup>13</sup>;
  - ensure a matter is brought to the attention of the public;
  - encourage the audited body or connected entity to take appropriate action;
  - highlight the failure of the audited body or a connected entity to take action or respond; or
  - express the auditor's view on a matter as an impartial person.
82. However, an auditor may consider that a public interest report might not be the most appropriate form of reporting when:
- it would unnecessarily undermine public confidence in the audited body or a connected entity;
  - the audited body or a connected entity has already taken action to remedy the deficiencies;
  - no actual or only small losses have been incurred; or
  - the matter involves a technical failing with no real consequences.
83. The auditor can issue a public interest report in relation to any matter whether identified as part of routine audit work or as a result of investigation into a particular subject. The need to report in the public interest can arise during the course of or after the end of the audit. The auditor should tailor their approach to the significance and urgency of the matter, and may publish the report in any way the auditor thinks fit.

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<sup>13</sup> Connected entities: The 2014 Act introduces the concept of 'connected entities'. Connected entities are bodies that are separate to the relevant authority, but are associated with the authority in such a manner that requires the authority to record financial information relating to the entity in its accounts. The full definition of connect entities is set out in paragraph 8 of Schedule 4 of the Act.

84. When making a public interest report during the audit, the auditor must not fetter their discretion at the end of the audit year in giving their audit opinion. The auditor should therefore include a statement that their opinion will depend on any further matters or information that come to light on the matter reported upon.
85. Public interest reports should be:
- clearly worded so that they are easily understood by those who will read them;
  - balanced and proportionate, particularly in reflecting the interests of those who may be criticised in the report while defending the public interest in the subject matter of the report;
  - concise and to the point, commensurate with the complexity of the issues involved;
  - clear and explicit in their conclusions and any recommendations; and
  - clear as to what the body should do in response to the report.
86. Throughout the process of preparing a public interest report, the auditor should make clear that they are still only considering whether to issue it. In addition to sharing the material documents and seeking representations and comments from interested parties, auditors should share relevant parts of the draft report which they are considering making with anyone whom the report is criticising. Auditors should also share the report with the audited body itself and any relevant connected entity. When sharing draft reports, the auditor should make clear that the draft is confidential and should not be shared other than with an advisor.
87. Comments received during the consultation process may result in changes to the draft or even a decision that a public interest report will not be issued. If changes are made as a result of representations which are adverse to any party, the auditor should repeat the process of sharing the report or relevant parts of it and inviting comment.
88. Auditors should make clear that a final decision to issue will only be made once all the material information and any representations received on that information have been fully considered.
89. For bodies other than FTs, when making a public interest report the auditor should send it, as soon as reasonably practicable after it is made, to:
- the body concerned (whether the relevant authority or a connected entity);
  - if in relation to a connected entity, to the relevant authority to which the entity is connected and any other relevant authority with which the entity is connected;

- the Secretary of State<sup>14</sup>; and
  - where relevant, the Greater London Authority.
90. For FTs, when making a public interest report the auditor should send it immediately, or within 14 days of the conclusion of the audit where not an immediate report, to:
- the council of governors of the FT;
  - the board of directors of the FT; and
  - NHS Improvement<sup>14</sup>.
91. Auditors of NHS bodies, where these bodies are the subject of a potential public interest report involving issues of legality, should also consider their responsibilities to make a referral under Section 30 of the 2014 Act or a referral to NHS Improvement under Schedule 10 of the 2006 Act.

## Referral of Matters Arising

92. As set out in Section 4.3 of the Code, the auditor of a health service body has a duty to consider whether there are any issues arising during their work that indicate possible or actual unlawful expenditure or action leading to a possible or actual loss or deficiency that should be referred to the Secretary of State, NHS England or NHS Improvement as appropriate.
93. Under [Section 30](#) of the 2014 Act, and under [Schedule 10](#) of the 2006 Act for FTs, where an auditor believes that the body or an officer of the body:
- a) is about to make, or has made, a decision which involves or would involve the incurring of expenditure which is unlawful, or
  - b) is about to take, or has taken, a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency,

the auditor should make a referral as follows:

- NHS CCGs – to the Secretary of State and NHS England;
- NHS trusts – to the Secretary of State;
- FTs – to NHS Improvement.

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<sup>14</sup> Further details regarding arrangements for copying public interest reports to the relevant Secretary of State and national bodies are available on the LACG extranet in the supporting information to this AGN.

94. Auditors have no duty to seek out matters for referral to the Secretary of State. Auditors should consider matters arising during their work and matters raised by members and officers of the audited body and by others.
95. Auditors should give particular consideration to any report that is made by any officer of the audited body, which comes to their attention and which provides evidence of possible unlawful expenditure, an unlawful course of action leading to a loss or deficiency, or a likelihood of expenditure exceeding income.
96. As soon as an auditor believes, or has reason to believe, that either of the circumstances set out in criteria a) or b) above is met, this triggers the referral duty. Once the auditor has reached the decision to refer, the referral must be made as soon as reasonably practicable (or 'at once' for FTs). This means referrals can be made before issuing the opinion on the financial statements<sup>15</sup>.
97. Auditors have no statutory requirement to consult the audited body before referring a matter to the Secretary of State, and in some circumstances it may not be appropriate to give notice to the audited body before taking action. Consultation is good practice however, helping to ensure accurate reporting with appropriate context, and also drive positive management action.
98. Taking account of the requirement for referrals to be made promptly, auditors should seek to give the audited body an opportunity to respond to the issues giving rise to the referral. This should be considered even if it is only possible to give the audited body a very short period to respond.
99. There are no statutory requirements about the content of the auditor's referral to the Secretary of State. Referrals should be clearly drafted, taking account of the complexity of the issue. A complex issue may warrant a detailed referral, providing an explanation of the relevant issues.
100. The Secretary of State will be aware of financial challenges faced by audited bodies through in-year monitoring arrangements. Less detail will therefore be required in referrals relating to an actual or expected breach of resource limits by an NHS CCG, or where an NHS trust expects to, or has broken, its breakeven duty. In such cases, a short letter-style may provide a clearer form of reporting.

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<sup>15</sup> Supporting information for this AGN in respect of referrals of matters arising and the application of the breakeven duty for NHS trusts and CCGs is available on the LACG extranet. This includes contact details that should be used to fulfil the requirement to submit the referral to the Secretary of State, NHS England, and NHS Improvement as relevant.



## Other Support and Raising Technical Issues or Queries on this AGN

101. 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](mailto:LACG.queries@nao.gsi.gov.uk).
102. Information supporting auditors is available on the LACG extranet. 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.
103. 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.