



## Auditor Guidance Note 3 (AGN 03)

### Auditors' Work on Value for Money (VFM) Arrangements

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#### 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.

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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 03 is relevant to all local auditors of bodies covered by the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

AGN 03 is not relevant to assurance engagements at smaller authorities for which the specified procedures are set out in AGN 02.

## **Introduction**

This AGN sets out guidance for auditors to support their work on value for money (VFM) arrangements. It covers all sectors.

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## The Legal and Professional Framework

1. This AGN is consistent with the relevant requirements of the Local Audit and Accountability Act 2014 (the Act) and the Code of Audit Practice (the Code). However, the requirements of the Act differ depending on the type of audited body, as set out below:

### **Local government bodies (including fire and rescue authorities, police and crime commissioners and chief constables):**

2. Section 20(1) of the Act requires that: *'In auditing the accounts of a relevant authority other than a health service body, a local auditor must, by examination of the accounts and otherwise, be satisfied ... (c) that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'*.

### **Health service bodies:**

3. **Clinical Commissioning Groups and NHS Trusts:** In respect of clinical commissioning groups, Section 21(1) of the Act requires that: *'A local auditor must, by examination of the accounts and otherwise, be satisfied ... that the [clinical commissioning] group has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'*. Section 21 (5) however also notes that the auditor's report *'must not contain the auditor's opinion on the matter in subsection (1)(c) or (3)(c) if the auditor is satisfied as to that matter'*.
4. In respect of NHS trusts, paragraph 4 of Schedule 13 of the Act extends the definition of 'health service body' to include NHS trusts. The requirement set out in the paragraph above therefore also apply to NHS trusts.
5. **Foundation Trusts:** In respect of foundation trusts (FTs), paragraph 1 of Schedule 10 of the National Health Service Act 2006 requires that *'in auditing the accounts of any NHS foundation trust an auditor must by examination of the accounts and otherwise satisfy himself that... (d) the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'*.
6. Paragraph 74 of Schedule 12 of the Local Audit and Accountability Act 2014 amends the National Health Service Act 2006 to require auditors to *'a) comply with the code of audit practice applicable to the accounts that is for the time being in force....and b) have regard to guidance issued by the Comptroller and Auditor General under paragraph 9 of that Schedule (as it has effect by virtue of paragraph 10(6) of that Schedule)'*.
7. In relation to the audits of local health bodies, the effect of these requirements is that unless local auditors have identified weaknesses to report, local auditors should not issue a separate conclusion on the body's arrangements to secure VFM in its use of resources as part of the auditor's report. However, they still need to carry out

sufficient work to be satisfied themselves that proper arrangements are in place in each audited body. On the basis of their work, auditors of local health bodies need to be able to consider whether there is a matter which they need to report by exception. Where there are no issues to report, auditors should confirm this under the '*matters by which we report by exception*' section of the auditor's general report.

### The Code of Audit Practice

8. The Code (along with the Act itself) implies that 'reasonable assurance' is required, as the auditor needs to be satisfied that there are proper arrangements in place, regardless of the form of reporting applicable to different sectors. Paragraph 3.14 of the Code states:

*'The auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report as appropriate to:*

- *audited bodies other than health service bodies – providing a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period; or*
- *health service bodies, including NHS foundation trusts – reporting by exception if the auditor concludes that they are not satisfied that the audited body has in place proper arrangements to secure value for money in the use of its resources for the relevant period.'*

9. In planning their work, paragraph 3.8 of the Code requires that:

*'The auditor should take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'*

10. This means that if other matters come to the auditor's attention which, in the auditor's judgement, are relevant to the discharge of their duties in respect of VFM arrangements under the Code, their impact on the auditor's risk assessment and planned response should be considered, irrespective of whether or not the issue is explicitly referenced within the scope of proper arrangements described in this AGN.
11. Auditors should not, therefore, consider references in this AGN to proper arrangements or significant risks as exhaustive, and should apply appropriate professional judgement to all issues considered.

**Professional Framework**

12. In developing the approach set out in this AGN we have drawn on relevant principles of the International Auditing and Assurance Standards Board’s (IAASB’s):

- International Framework for Assurance Engagements; and, in particular,
- International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

13. However, auditors undertake work on the conclusion on arrangements to support VFM under the Code of Audit Practice. This is **not** an engagement under the International Framework or ISAE 3000 (Revised) and auditors are required to have regard only to the guidance set out in this AGN. Unless explicitly referred to within this AGN, none of the requirements of ISAE 3000 (Revised) are applicable to work on arrangements to secure VFM.

14. In this context, the following definitions are helpful in understanding the terms used in the standard:

<b>ISAE 3000 (Revised)</b>	<b>Meaning for the purposes of this AGN</b>
The ‘responsible party’ that is responsible for the ‘subject matter’ and any accompanying ‘subject matter information’	The audited body
The ‘practitioner’ that carries out the engagement and provides an assurance report	The local external auditor undertaking work in accordance with this AGN
The ‘intended users’ for whom the assurance is provided	Local people, service users and taxpayers, central government departments, other stakeholders and other funding providers
Subject matter	Proper arrangements as defined in this AGN
Subject matter information	Information about the subject matter contained in, for example: <ul style="list-style-type: none"> <li>• Annual Governance Statements and the information disclosed or available in support;</li> <li>• Annual Reports and Accounts;</li> <li>• reports from the audited body including internal audit; and,</li> <li>• information available from the body’s own risk registers – available to the</li> </ul>



ISAE 3000 (Revised)	Meaning for the purposes of this AGN
	practitioner but not the subject of assurance on VFM arrangements
Evaluation criteria	The criteria used by the practitioner when evaluating and reporting on the subject matter

### Approach to VFM arrangements work at bodies demising during the year

15. It is possible that some audited bodies may demise part way during a financial year (for example, due to a reorganisation in the NHS).
16. In such circumstances, while having regard to this guidance, auditors are not required to undertake a formal risk assessment or issue a VFM arrangements conclusion in respect of the demised body. The requirements of AGN 03 will, however, apply in full to any successor body, with effect from the first part-year onwards.
17. Where information comes to the auditor's attention that indicates that there are significant weaknesses in a body's arrangements to secure VFM, or where the auditor is aware of significant issues through prior audit knowledge (such as, for example, having issued a qualified VFM arrangements conclusion in the preceding year), auditors are expected to bring such matters to the attention of the appropriate successor body or its auditor.
18. There are a range of reporting options available to auditors to achieve this. Guidance on reporting is set out in detail in Auditor Guidance Note (AGN) 07 – Auditor Reporting.

### Subject Matter – Definitions of Proper Arrangements

19. The subject matter for the purposes of auditors' work under this AGN is a local body's arrangements to secure economy, efficiency and effectiveness in its use of resources. In particular, the Act and the Code require auditors to consider whether the body has put in place 'proper arrangements'. This AGN sets out the arrangements that fall within the scope of 'proper arrangements'.
20. The Code states in paragraph 3.7 that the *'auditor's work should be underpinned by consideration of what arrangements the audited body is expected to have in place. This should be based on the relevant governance code or framework for the type of local public body being audited, together with any other relevant guidance or requirements'*.

21. Auditors should note that references to effectiveness in arrangements set out below refer to the design and intended outcome of the arrangements the audited body puts in place.
22. While auditors do not need to gather evidence of outcomes in order to conclude on the adequacy of arrangements in place, they should take account of evidence drawn from outcomes where it comes to their attention, and especially where outcomes suggest that there may be significant weaknesses in those arrangements.
23. Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the following overall evaluation criterion:

***Overall criterion:***

***In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.***

24. To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements but these are not separate and auditors are not required to reach a distinct judgement against each one:

***Sub-criteria:***

- informed decision making
- sustainable resource deployment
- working with partners and other third parties

Auditors should note that while all bodies will work with partners and other third parties (including contractors), the significance of these arrangements, and consequently the extent to which they will impact on the auditor's risk assessment, will vary.

25. In both local government and the NHS, organisations are already required to have arrangements in place to ensure proper governance, resource and risk management, and internal controls, and to report on the design and operation of those arrangements through annual governance statements.
26. This AGN draws on relevant requirements<sup>1</sup> applicable to each sector and aligns the scope of proper arrangements with those that responsible parties are already required to have in place and to report on through documents such as annual governance statements and annual reports (where applicable).

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<sup>1</sup> Relevant authorities that set out the requirements include the CIPFA/SOLACE framework for local government, NHS Improvement's NHS Foundation Trust Annual Reporting Manual, CCG reporting guidance on governance statement requirements published by NHS England, and the NHS Trust Development Authority's Annual Governance Statement guidance.

27. Drawing on the relevant requirements applicable to local bodies, proper arrangements cover the following:

**Informed decision making**

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions
- Reliable and timely financial reporting that supports the delivery of strategic priorities
- Managing risks effectively and maintaining a sound system of internal control

**Sustainable resource deployment**

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions
- Managing and utilising assets effectively to support the delivery of strategic priorities
- Planning, organising and developing the workforce effectively to deliver strategic priorities

**Working with partners and other third parties**

- Working with third parties effectively to deliver strategic priorities
- Commissioning services effectively to support the delivery of strategic priorities
- Procuring supplies and services effectively to support the delivery of strategic priorities

28. As part of planning, auditors should consider the risk of reaching an incorrect conclusion in relation to the overall criterion. However, the level of testing, if any, auditors carry out should be proportionate and consistent with the auditors' risk assessment.



## The Auditor's Risk Assessment

29. The auditor's risk assessment supports the planning of sufficient work to enable them to deliver a safe conclusion on arrangements to secure VFM. The 'risk' in this case is 'engagement risk', i.e. the risk that the auditor will come to an incorrect conclusion in respect of the arrangements, rather than the risk of the arrangements themselves being inadequate.
30. The risk assessment enables the auditor to determine the nature and extent of further work that may be required. This means that **if the auditor does not identify any significant risks there is no requirement to carry out further work**. This AGN does not specify how auditors should undertake their assessment of risk but, as a minimum, risk assessments are expected to include consideration of the significance of business and operational risks insofar as they relate to 'proper arrangements'. This should include risks at both sector and organisation-specific level, and draw on relevant cost and performance information as appropriate.
31. Auditors should also consider the impact of findings of other inspectorates, review agencies and other relevant bodies on their risk assessment, where they are relevant and available. Information relevant to the risk assessment could come from a variety of sources, which may include but are not limited to:
- *for relevant local government bodies including police:*  
OFSTED  
Care Quality Commission  
Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services  
Ministry of Justice
  - *for relevant NHS bodies:*  
Care Quality Commission (CQC)  
NHS Improvement<sup>2</sup>  
Department of Health  
NHS England  
Health and Wellbeing Boards
32. Auditors should schedule their work to enable them to consider the most recent findings of other inspectorates where publication is expected before auditors issue their conclusion. However, where timetables do not align, auditors should not delay issuing the conclusion unless the inspectorate's report is likely to affect the auditor's conclusion.
33. The NAO will make supporting information available to auditors which will provide links to useful information sources, and may highlight certain national and sector developments as potential risk issues for consideration.

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<sup>2</sup> Monitor and the NHS Trust Development Authority came together under the common heading of "NHS Improvement" from 1st April 2016.

### Identification of 'significant risk'

34. In undertaking the risk assessment, auditors will need to determine whether there are any risks that should be classified as 'significant'.
35. The Code defines 'significant' as follows: *'A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'*
36. An auditor's assessment of what is a significant risk and the amount of additional audit work required to adequately respond to the risk is a matter of professional judgement, and is based on their evaluation of the subject matter in question. In determining whether a risk is significant, auditors should consider both the significance of sums involved along with wider, qualitative aspects, such as the risk of an adverse impact on the delivery of a major service or the impact on an audited body's reputation.
37. In some cases, auditors may consider that, based on their existing knowledge of arrangements at the body and the nature of issues previously reported, there is no significant engagement risk as defined in paragraph 29.
38. Where an auditor has concluded that proper arrangements to secure VFM were not in place in the previous year, it is appropriate to consider those qualification issues as significant risks. The auditor will need to undertake sufficient work in these areas to conclude whether or not the matters giving rise to the previous year's qualified conclusion are also relevant to the current year.
39. Equally, even where an adverse conclusion was issued in the previous year, auditors will also need to satisfy themselves that no further matters have arisen that would need to be considered significant risks and reflected in the auditor's reporting on VFM arrangements, or through any of the auditor's wider reporting responsibilities, as set out in AGN 07 – Auditor Reporting.

### Initial risk assessment

40. The auditor should document their assessment of significant risks, drawing on relevant information including, but not limited to:
- cumulative knowledge brought forward from previous audits;
  - relevant findings from work undertaken in support of the opinion on financial statements (for example, understanding the entity and any work on key systems and controls);
  - reports from the audited body including internal audit;
  - information disclosed or available to support the annual governance statement and annual report (where applicable); and,

- information available from the audited body's own risk registers and supporting arrangements.

41. The auditor should consider the range of risks that are relevant to the body concerned, drawing on their knowledge of the body itself, the illustrations of potential significant risks as set out in the AGN, and any relevant supporting information provided by the NAO with this AGN. Auditors are not required to consider all illustrative significant risks set out in the AGN in their risk assessment or all issues included in the supporting information. Auditors should consider the illustrative significant risks insofar as they are consistent with their understanding of the audited body.

### **Initial planning and risk assessment work**

42. The auditor should consider to what extent evidence is available to address the identified risks. Evidence could be drawn from the auditor's cumulative knowledge in respect of the body (including consideration of issues such as qualifications in previous years) as well as work undertaken in support of the opinion. The findings of relevant inspectorates and other review agencies may also provide sufficient evidence to inform the auditor's risk assessment, especially in relation to the consideration of risks around the delivery of services.

43. The documentation and evidence in support of the initial risk assessment should be sufficient to enable an experienced auditor with no prior knowledge of the body to understand the basis for the auditor's judgements as to whether or not there are significant risks.

44. Auditors should remember that the risk assessment process is dynamic, and can change throughout the course of the audit as new information emerges. Auditors should therefore be alert to the possibility that in addition to confirming prior to the conclusion of the audit that no new risks have emerged that need to be addressed, they may need to revisit the risk assessment during the year. This could be in the light of issues such as unexpected out-turn information, findings from other agencies or inspectorates, or where outcomes suggest that there may be significant weaknesses in the arrangements the audited body has put in place.

45. Where the auditor has identified 'significant risks', or is unable to conclude whether a significant risks exists without undertaking significant additional work, the auditor should document the additional work they plan to do in response and report these risks to those charged with governance. Any additional work undertaken should be proportionate to the severity and nature of the significant risk(s) identified.

### **Potential Significant Risks – Illustrative examples**

46. The judgement over what constitutes a significant risk is the auditor's. Auditors are not required to consider all illustrative significant risks set out in the AGN or in the supporting information, nor is it expected that significant risks will be identified every year at every audit.

47. The following are examples of issues or developments which an auditor may consider as significant engagement risks:

Issue	Possible considerations
Organisational change and transformation	<p>Engagement risks may be present where the body is planning or is undertaking significant:</p> <ul style="list-style-type: none"> <li>- reorganisation or merger</li> <li>- outsourcing, or transfer to alternative delivery models e.g. formal partnerships, mutuals, social enterprises, joint ventures, etc.</li> <li>- capital projects</li> <li>- commercial activities, such as investment or trading, where there may be significant uncertainty about balancing risk and reward; and</li> <li>- debt restructuring, especially where this involves entering into unusual or complex forms of new borrowing, or is being used to finance unusual or complex schemes.</li> </ul> <p>It can take several years for projects such as these to reach implementation, but it is not necessary for projects to have been implemented in order to come within the scope of the VFM arrangements conclusion. Prior to decision and implementation, where it comes to the auditor's attention that a significant change and/or transformation project is planned or being developed, auditors may include consideration of the adequacy of arrangements to manage the selection and development of such projects, and the extent to which these arrangements support informed decision making and sustainable resource deployment, as part of their risk assessment.</p>
Significant funding gaps in financial planning	<p>The significance of budget gaps will depend both on the size of the funding gap, and at what point it emerges in the body's medium-term financial plans. Auditors' responses (and the level of work planned in response) should therefore be proportionate, and should take account of the differing levels of certainty with which bodies in different sectors may be able to plan into the future.</p>

Issue	Possible considerations
	<p>However, where the body has a significant budget gap in terms of funding, and especially where a significant level of as yet unidentified savings are required to deliver a balanced budget, or where the body has set a deficit budget, the auditor should consider whether the issue represents a significant risk.</p> <p>The auditor should also consider whether significant risks are present where organisations are meeting funding gaps through the unplanned use of reserves, or by relying on short-term or non-recurrent sources of funding.</p>
Legislative/policy changes	Where a body is taking on a significant new function as a result of changes in legislation or national policy decisions, the auditor should consider whether to document the issue as a significant risk and consider the body's response.
Repeated financial difficulties, or persistently poor performance	Where a body has a history of financial difficulty, or persistently performs poorly in one or more significant service areas with insufficient evidence of the likelihood of securing improvement, the auditor should consider whether, when considered in aggregate, this constitutes a significant risk.
Other sources	Engagement risks may be present where an independent inspectorate, review agency or other relevant body identifies significant concerns about the quality of services provided.

**Risk assessment at health bodies**

- 48. Health bodies are subject to regular in-year and year-end performance and financial monitoring. Auditors, in carrying out their risk assessment, may conclude that given their knowledge of the organisation and its risks, that this provides sufficient assurance that there are no significant risks requiring further work under this AGN.
- 49. However, financial and performance monitoring may not, of itself, mitigate all risks associated with the auditor's assessment of proper arrangements and therefore, the auditor's risk assessment should still confirm whether the risks have been satisfactorily addressed by the arrangements in place.

*Potential significant risks - Health bodies*

50. The following are illustrative examples of scenarios which the auditor may consider as significant and that may require further work to address:

- The previous year out-turn was significantly different from that reported in-year under the quarterly monitoring arrangements.
- An FT is found to have breached one of its licence conditions by Monitor (operating as NHS Improvement), or has been placed in special measures.
- An independent review organisation (such as the CQC) identifies significant concerns with the quality of services provided.
- Where a body has a history of financial difficulty, or persistently performs poorly in one or more key service areas with little sign of securing any improvements, the auditor should consider whether, when considered in aggregate, this constitutes a significant risk.

**Planning and undertaking local VFM audit work – all sectors**

51. In completing and documenting their approach to work on local VFM arrangements, auditors should clearly document:

- The risks considered in relation to each element of the subject matter, including those issues highlighted as 'potential significant risks'.
- The subject matter information that the auditor intends to collect to evaluate the subject matter (including drawing on information from the responsible body supporting the Annual Governance Statement and where relevant, audit work in support of the opinion on the financial statements).
- The results of the evaluation.
- The reporting implications as a result of the findings.

52. The standards to be met in terms of file documentation are no different than would be expected in connection with the audit of the financial statements.



## Evaluation Criterion

53. Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on an overall evaluation criterion, supported by sub-criteria as set out in paragraphs 23 and 24 above.
54. Local government auditors will always issue a conclusion by reference to the above criterion, using the sub-criteria to guide their judgements and reporting. Auditors of NHS bodies will report by exception only, but will report by reference to the same criterion and sub-criteria when doing so.
55. Each of the sub-criteria relate directly to the subject matter as defined in this AGN. Although auditors may find evaluating arrangements against the sub-criteria helpful, they should consider the local body's arrangements in the context of the overall criterion.
56. As stated in paragraph 22 while auditors do not need to gather evidence of outcomes and should not question the merits of the decisions in order to conclude on the adequacy of arrangements in place, they should take account of evidence drawn from outcomes where it comes to their attention, and especially where outcomes suggest that there may be significant weaknesses in those arrangements.
57. The auditor's conclusion on arrangements to secure VFM is wider than a review of the body's viability as a going concern for financial reporting purposes. Consequently, in considering service and financial sustainability, auditors are not expected to apply a pre-determined timeframe when evaluating subject matter information. Rather, auditors should consider the timeframe that is appropriate to the nature of the subject matter and the subject matter information, taking account of the differing levels of certainty with which bodies in different sectors may be able to plan into the future. In some cases, such as major outsourcing or capital projects, or major transformation such as a structural reorganisation, the appropriate timeframe could extend significantly beyond that which is covered by annual or medium-term financial plans.
58. Where auditors have identified significant issues in relation to going concern assumptions as part of their work on the financial statements, this should impact on the auditor's evaluation of the relevant subject matter and subsequent reporting considerations.
59. Auditors should also note that their statutory conclusion relates only to the same period as the statement of accounts. While evidence that is gathered after the year-end but which confirms (or otherwise) the adequacy of arrangements during the year of audit is relevant to the auditor's conclusion, evidence of actions taken by the body since the year end in respect of weaknesses in arrangements is not relevant to the auditor's conclusion and should not be referred to in the auditor's general report.

60. Such additional information may, however, be useful in terms of informing the following year's risk assessment and for providing additional context in respect of the auditor's wider reporting considerations, such as reports to those charged with governance, or annual audit letters.

## Reporting the Results of Auditors' Work

61. Auditors should maintain regular communications with senior management and those charged with governance on issues affecting the auditor's conclusion on arrangements to secure VFM. Chapter four of the Code sets out the auditor's statutory duties for reporting the results of their work, and further guidance is provided in AGN 07. In respect of the conclusion on arrangements to secure VFM, these duties are summarised in the following table. When evaluating the results of work undertaken following the risk assessment, auditors are expected to consider the full range of reporting options that are available to them.

Audit Stage	Requirement
Planning the audit	<p>The audit planning report should encompass the auditor's planned work to meet their duties in respect of the audited body's arrangements to secure VFM through the economic, efficient and effective use of its resources.</p> <p>The auditor should set out any significant risks identified, along with details of the work the auditor plans in response, or confirm that there are no significant risks.</p>
Completion of audit fieldwork	<p>The auditor should report to those charged with governance the results of their work in respect of the audited body's arrangements to secure VFM through the economic, efficient and effective use of its resources.</p> <p>The auditor should set out the findings from their work, including:</p> <ul style="list-style-type: none"> <li>• the results of work in response to the auditor's risk assessment, including any significant risks reported to the body at the planning stage;</li> <li>• the auditor's views about significant qualitative aspects of the body's arrangements for delivering economy, efficiency and effectiveness;</li> <li>• significant difficulties, if any, encountered when undertaking the work;</li> </ul>





Audit Stage	Requirement
	<ul style="list-style-type: none"> <li>• significant matters, if any, arising from the work that were discussed, or subject to correspondence with management; and</li> <li>• 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.</li> </ul> <p>Where the risk assessment has been revisited and has changed during the course of the year, auditors should also report this to those charged with governance. For example, where the auditor has included an emphasis of matter in their opinion on the financial statements, they should revisit their VFM arrangements risk assessment and document their judgement of the extent to which the issue impacts on the VFM arrangements conclusion.</p> <p>The auditor should also set out the proposed basis for their statutory conclusion, i.e. qualified/unqualified and, where any form of qualification is proposed, set out the basis for the qualification and the evidence supporting the judgement.</p> <p>Auditors need to carry out sufficient work to be satisfied that proper arrangements are in place. However, where this leads to qualification of the proposed conclusion, auditors need only to have gathered sufficient evidence to support their judgement and enable them to explain the basis for the qualification.</p>
<p>Auditor's general report, including the conclusion on arrangements to secure VFM</p>	<p>The auditor's general report should cover the following in respect of the conclusion on arrangements to secure VFM:</p> <p><b>For local government:</b> 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.</p> <p><b>For NHS bodies including FTs:</b> If the auditor has no issues to report, they should confirm this under the '<i>matters by which we report by exception</i>' section of the auditor's general report.</p> <p>Where the auditor has matters to report, they should issue a separate qualified conclusion.</p> <p><b>Events after the end of the financial year</b> - The auditor's conclusion is in respect of arrangements in place up to 31 March. Therefore, information coming to the auditor's attention after 31 March is only relevant to the auditor's conclusion in so far as it</p>



Audit Stage	Requirement
	<p>informs their understanding of the arrangements in place during the year. Any corrective action taken by audited bodies after 31 March in respect of identified weaknesses in arrangements is not relevant to the auditor's conclusion but should inform the auditor's risk assessment for the following year.</p>
<p>Annual Audit Letter, where applicable</p>	<p>The Annual Audit Letter 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.</p> <p>Auditors should seek to draw on the reports already made to the body at the planning stage and completion of fieldwork (report to those charged with governance), and should look to issue their letter as soon as possible after the completion of the audit.</p> <p>Where audited bodies take corrective action after 31 March in respect of identified weaknesses in arrangements, this can be reflected in the Annual Audit Letter, but the auditor should not fetter their discretion in respect of the following year's conclusion.</p> <p>There is no requirement for an Annual Audit Letter at FT audits.</p>
<p>Other reporting options</p>	<p>Auditors should remember that a range of other reporting options are available in addition to those listed above, which can be used to draw attention to specific issues in relation to arrangements to secure VFM. For further guidance on the processes and issues auditors should consider when exercising any of these reporting options, auditors should refer to AGN 07 – Auditor Reporting.</p> <p><b>Reports in the public interest</b> – the auditor should 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.</p> <p><b>Written recommendations</b> – the auditor should consider whether to use the powers the Local Audit and Accountability Act provides to make written recommendations to audited bodies which need to be considered by the body and responded to publicly.</p>

### The auditor's general report

62. The auditor's general report covers all auditor responsibilities under section 20 of the Local Audit and Accountability Act for bodies other than NHS bodies, section 21 of the Local Audit and Accountability Act for NHS bodies, and paragraph 1 of Schedule 10 of the National Health Service Act 2006 for FTs.
63. For bodies other than NHS bodies, it therefore includes the auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. For NHS bodies, including FTs, the auditor's general report should confirm under the '*matters by which we report by exception*' section that there are no issues to report, or include a separate qualified conclusion reporting significant weaknesses in arrangements.
64. As set out in paragraphs 15-18, the auditor's general report for bodies which have demised during the financial year is not required to include a VFM arrangements conclusion.

### Unqualified Conclusions

65. For bodies other than NHS bodies, where the auditor is satisfied that they have sufficient evidence that the body has proper arrangements in place to secure VFM, they should issue a positive conclusion confirming that they are satisfied in all significant respects.
66. Note that in respect of NHS bodies (CCGs, NHS trusts and FTs), auditors are not expected to issue a report unless there are matters to report (see 'Qualified Conclusions' below).

### Qualified Conclusions

67. Where the auditor concludes that there are significant weaknesses in a body's arrangements, they should qualify their statutory conclusion. The qualification can take one of two forms, either an 'adverse' or an 'except for' conclusion. Both of these options are considered in more detail below.

#### Adverse Conclusion:

68. In this scenario, the auditor concludes that the weaknesses in arrangements that they have identified are either so significant in terms of their impact, or so numerous in terms of the number of different aspects of proper arrangements affected, that they are unable to satisfy themselves that the body has proper arrangements in place to secure VFM.

**'Except for' conclusion:**

69. In this scenario, the auditor has identified weakness(es) that are sufficiently significant in their professional judgement to warrant reporting on in the auditor's general report, but they are limited to specific issues or areas. In such circumstances, the auditor may conclude that the body does have proper arrangements in place, 'except for...' the issue concerned.
70. For both conclusions, the auditor's general report should include a concise summary of the nature of the issue giving rise to the qualification. The same level of detail as may have been included in the report to those charged with governance or annual audit letter is not required, but the conclusion should contain enough information for it to 'stand alone'. Auditors should clearly link the issue to one (or more) of the elements of proper arrangements as set out in this AGN, but they are not required to reproduce the precise wording of the arrangement to which they are linking their qualification.

**Supporting Information**

71. In addition to this AGN, auditors have access to sector-specific supporting information, prepared by the NAO.
72. The supporting information does not form part of the statutory guidance to which auditors must have regard, but it helps auditors to understand the key developments and risks that are relevant to VFM arrangements in each sector.
73. The supporting information is updated as and when required, to reflect any significant developments during the year. Auditors are notified of any updates to the supporting information via the WAC.
74. If, in exceptional circumstances, the NAO identifies the need for further statutory guidance to be issued in respect of the current audit year, this may be issued by the C&AG as an addendum to this AGN.

**Raising Technical Issues or Queries on this AGN**

75. 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)
76. 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.