

Auditor Guidance Note 2 (AGN 02)

Specified Procedures for Assurance Engagements at Smaller Authorities

Version issued on: 17 March 2023

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 prepares and publishes Supplementary Guidance Notes (SGNs) under Schedule 6 paragraph 9 of the Act. SGNs are prepared and published when the C&AG wishes to address a particular issue. SGNs are part of the full suite of AGNs which as such constitute guidance to which local auditors must have regard under Section 20(6) of the Act.

The NAO issues Weekly Auditor Communications (WACs), and less frequently Special Auditor Communications (SACs) to local auditors to bring to their attention relevant information to support them in carrying out audit work. Whilst these are for information, they may draw attention to guidance that has been issued by the NAO on behalf of the C&AG in AGNs to which, as stated above, auditors must have regard. The NAO may also use SACs to clarify expectations in relation to interpretation of specific issues.

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



National Audit Office

AGN 02

Specified Procedures for Assurance
Engagements at Smaller Authorities
Issued on 17 March 2023

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The AGNs are designed to assist local auditors in forming their own understanding of the requirements of the Code. Auditors are required to have regard to AGNs, which means that they must take into account the guidance issued by the NAO, and, if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance. AGNs are in no way intended as a substitute for the exercise of the independent professional skill and judgement of a local auditor in deciding how to apply the NAO's guidance or when providing explanations as to why guidance has not been followed.

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

AGN 02 is relevant to all local auditors appointed to carry out assurance engagements at smaller authorities under the Local Audit and Accountability Act 2014 and the *Code of Audit Practice*.

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Introduction

1. Government has determined that a lower level of assurance than that available from a 'full audit' is appropriate for those local public bodies with the lowest levels of spending. This policy objective broadly maintains the approach taken for smaller authorities for several years.
2. This AGN provides guidance on the work required by auditors to review and report on annual governance and accountability returns (AGAR), prepared by smaller authorities. The description 'auditor' is used throughout this AGN, to reflect terminology in the Local Audit and Accountability Act 2014 (the 2014 Act). The work done by auditors at smaller authorities is an assurance engagement but not an audit under international auditing standards. The approach is fundamentally different to that for principal local authorities and so the description 'assurance engagement' is used throughout this AGN.
3. Under the 2014 Act, the NAO has prepared and published the C&AG's Code of Audit Practice (the 2020 Code). The 2020 Code takes effect for work on smaller authorities' AGARs for years starting on or after 1 April 2020.
4. The 2014 Act (as modified in relation to smaller authorities by the [Local Audit \(Smaller Authorities\) Regulations 2015](#), and the 2020 Code, set out the statutory requirements that auditors need to follow when carrying out their work on the AGARs of smaller authorities. The 2020 Code requires auditors to carry out an assurance engagement in accordance with procedures specified in guidance issued by the NAO. This AGN comprises the guidance and procedures for work on AGARs for years starting on or after 1 April 2020.
5. Auditors need to understand:
 - which local bodies are smaller authorities and which of these are subject to an assurance engagement rather than a 'full audit';
 - the requirements of the [Accounts and Audit Regulations](#) applicable to smaller authorities, and the proper practices to be followed by smaller authorities in preparing their AGAR;
 - the specified procedures to follow for assurance engagements including the procedures to be followed for 'basic level' and 'intermediate level' reviews;
 - procedures for reporting the results of limited assurance work at smaller authorities;

- what procedures to follow if they are required to carry out work at a smaller authority that is otherwise exempt from routine work; and
 - other guidance that is available to support auditors in carrying out their functions effectively.
6. Auditors of relevant smaller authorities need to have regard to the guidance set out in this AGN and, in particular, apply the specified procedures set out within this guidance to support their work on AGARs.
7. A selection of sample documents has also been prepared, which may be helpful to auditors in completing their assurance engagements. The documents can be found in supporting material which auditors can access by logging into the NAO's LACG extranet and navigating to *AGN 02 – Supporting Information* in the *AGN 02 – Smaller Authorities* folder.

Smaller Authorities Where an Assurance Engagement is Required

8. Smaller authorities are defined under Section 6 of the 2014 Act as those local authorities where, for three years (or one or two years if it has existed for less than three years), the higher of gross income or expenditure does not exceed £6.5 million. Government has also determined that from 2017-18 the very smallest local authorities (those whose gross income or gross expenditure for a particular year does not exceed £25,000) will, in most cases, be exempt from even the annual limited assurance engagement required at other smaller authorities, although there are some exceptions. These are set out in Regulation 9 of the Local Audit (Smaller Authorities) Regulations 2015. Exempt authorities will still be required to complete and approve an AGAR, publish it, and make provision for the exercise of public rights to inspect and object to the return. Exempt authorities will not, however, be required to submit the return to the external auditor for a limited assurance review.

9. The thresholds and associated requirements which auditors need to understand are set out in the following table:

Level of income or spending	Form of external assurance to be provided from 2017-18 onwards
More than £6.5 million.	'Full audit' under international auditing standards.
Up to £6.5 million but more than £200,000. Accounts on income and expenditure basis.	Limited assurance engagement but may opt for 'full audit'.
Up to £200,000 but more than £25,000. Accounts can be on either receipts and payments or income and expenditure basis.	Limited assurance engagement but may opt for 'full audit'.
Gross income or gross expenditure up to £25,000.	Exempt from audit and limited assurance engagement in most cases, subject to the authority certifying publicly, including by notifying its appointed auditor, that it meets the conditions for exemption set out in Regulation 9 of the Local Audit (Smaller Authorities) Regulations 2015. Work by an auditor may still be needed in certain circumstances – notably if there are objections to the accounts.
No financial transactions and no accounts.	Exempt from audit and limited assurance engagement in most cases, subject to the authority certifying publicly, including by notifying its appointed auditor ¹ that it meets the conditions for exemption set out in Regulation 9 of the Local Audit (Smaller Authorities) Regulations 2015.

¹ Smaller Authorities Audit Appointments Ltd have contractually agreed with audit firms that they will be responsible for receiving notification by way of return of a completed Certificate of Exemption on their behalf.

The Accounts and Audit Regulations (as amended)

10. The Accounts and Audit Regulations 2015 (the Regulations) came into force on 1 April 2015. The Regulations set out authorities' duties and responsibilities in respect of the preparation of financial statements, the limited assurance work (or audit work if required, where a smaller authority has opted for a 'full audit') in connection with those statements and establish a framework for the exercise of public rights. The 2015 Regulations apply only to financial statements from 1 April 2015 onwards, although some provisions did not take effect in practice until 2017-18. The Local Audit (Smaller Authorities) Regulations 2015 set the requirements for eligibility for certification as an exempt authority and for appointment of external auditors, which came into effect from 2017-18 onwards. In 2020, 2021 and 2022, the regulations were amended, but none of the amendments affected the guidance contained within this AGN.
11. The key aspects relevant to auditors of smaller authorities under the Accounts and Audit Regulations 2015 and the Local Audit (Smaller Authorities) Regulations 2015 are that:
 - authorities themselves are responsible for setting the dates for the exercise of public rights and are required to specify and authorise commencement of a thirty-working-day period for the exercise of public rights; and
 - smaller authorities, who are more than 3 years old and whose gross income or gross expenditure for a particular year does not exceed £25,000 can certify themselves exempt from a limited assurance review. These authorities will, however, still have to make provision for the exercise of public rights and auditors will have to consider any questions or eligible objections if raised by electors during this period. There are various circumstances listed in 9(3) of the Local Audit (Smaller Authorities) Regulations 2015, that even if the authorities fall below the £25,000 exemption threshold, they would not be able to certify themselves exempt and would have to submit an AGAR to their auditor for a limited assurance review. Authorities that have certified themselves exempt cease to be exempt if the circumstances listed in regulation 9(3) occur after certification. A limited assurance review would be required in these circumstances too.
12. This AGN may be updated if there are any changes made to the above regulations that are relevant to 2022-23 AGARs or to the requirements placed on auditors.

13. Auditors may find it helpful to engage with smaller authorities on these issues in particular at an early stage, to ensure that they are aware of their responsibilities in respect of commencing the period for the exercise of public rights and the requirements for certifying exemption. This may be best achieved through the use of the preceding year's closure letter, or in correspondence with smaller authorities in respect of the current audit year. Auditors may wish to include reference to the following information:
- key dates and requirements for the engagement, making it clear it is the smaller authority's responsibility to commence the period for the exercise of public rights at the appropriate time and to publish this information;
 - options for smaller authorities to consider in terms of the planned date for submission of their AGAR and an explanation of the impact this has on the timing of the thirty-working-day period for the exercise of public rights and the need for this to include the first ten working days of July. This will help smaller authorities work out when announcements need to be placed and may reduce the risk of problems being encountered when the engagement work is undertaken; and
 - the requirements for certifying exemption, including reminding smaller authorities that even if they certified themselves as exempt, they would still have responsibility to make adequate provision for the exercise of public rights.

Proper practices to be followed by smaller authorities

14. The Joint Panel on Accountability and Governance (JPAG) has been recognised by MHCLG as the body responsible for maintaining and issuing proper practices to be followed by smaller authorities in relation to accounting and internal control as referred to in the Accounts and Audit Regulations. JPAG approves the Practitioners' Guide, which sets out proper practices and which is published jointly by the National Association of Local Councils (NALC), the Society of Local Council Clerks (SLCC), and, for Internal Drainage Boards (IDBs), the Association of Drainage Authorities (ADA).

Responsibilities of smaller authorities

15. Where smaller authorities complete, approve and send to the auditor an AGAR, they do so in accordance with proper practices as specified by JPAG. The Responsible Finance Officer (RFO) certifies that the accounting statements present fairly the financial position of the smaller authority and its income and expenditure, or properly present receipts and payments, as the case may be.
16. The RFO also arranges for the following to be completed and signed off:
 - **Section 1: Annual governance statement (AGS)** – comprising ‘yes’, ‘no’ or ‘not applicable’ answers to nine assertions (local councils) or eight assertions (other smaller authorities) and approved by the smaller authority. (Note that approval cannot be delegated to a committee, and ‘not applicable’ is only an appropriate option in respect of assertion 9 on the AGS). Proper practices require the authority to approve Section 1 before Section 2.
 - **Section 2: Accounting statements** – prepared in accordance with the Practitioners’ Guide and approved by the smaller authority (a function that cannot be delegated).
 - **Annual internal audit report** – providing an independent report on the adequacy and effectiveness of the smaller authority’s system of internal control.

Specified Procedures to be Followed for Assurance Engagements

17. This AGN sets out specified procedures that auditors are required to carry out when undertaking limited assurance reviews at smaller authorities which have not certified themselves exempt (or which have certified themselves exempt but have ceased to be exempt due to the occurrence of events in regulation 9(3)).
18. The approach specified includes ‘basic level review procedures’, which apply to smaller authorities with both gross annual income and expenditure of £200,000 or less, and ‘intermediate level review procedures’, which apply to smaller authorities where either gross income or gross expenditure (or both) exceed £200,000 and do not exceed £6.5 million.

19. In addition, auditors are expected to apply intermediate level review procedures to a sample of the smaller authorities that would otherwise be subject to a basic level review.

Initial planning

20. Auditors will therefore need to consider a number of issues when undertaking initial planning work each year.
21. Auditors will need to understand the nature of the smaller authorities which will be reviewed, i.e., how many will be subject to basic level review procedures and how many to intermediate level review.
22. Auditors should consider selecting a random sample of up to 5% of authorities who would normally be subject to basic procedures and apply the intermediate procedures approach set out in paragraphs 26 and 27 to 29. Additionally, where information comes to the auditor's attention in respect of a particular smaller authority that suggests that proper practices may not have been complied with, the auditor should consider including them in the sample for intermediate review procedures.
23. Finally, in respect of the intermediate level review, auditors will need to determine the specific assertions from the annual governance statement that they intend to test. In determining the choice of assertion to test, auditors may again wish to draw on information such as previous years' findings, the length of time since the assertion was last examined, and any specific risk issues of which they are aware. Auditors should aim to cover all assertions at least once every five years.
24. The specified procedures are set out in paragraphs 25 to 29, but can be summarised as set out in the following table:



Level of spending	Specified procedures	Number of assertions to test	Threshold for variance analysis
Both gross annual expenditure and income £200,000 or less.	<p>‘Basic level’ review procedures, unless selected as part of the sample of smaller authorities to which ‘intermediate level’ review procedures are applied.</p> <p>On completion of their work auditors enter their certificate and report on the AGAR.</p>	<p>None, except where selected as part of a sample to which ‘intermediate level’ review procedures are to be applied</p> <p>Follow up on matters raised in previous year(s)</p>	Obtain explanations for variances that are 15% or more.
Either gross annual expenditure or income or both exceed £200,000 but less than £500,000	<p>‘Intermediate level’ review procedures.</p> <p>On completion of their work auditors enter their certificate and report on the AGAR.</p>	<p>Test 3 assertions and at least 1 criterion per assertion.</p> <p>Test assertions in rotation and cover all assertions at least once every five years.</p> <p>Follow up on matters raised in previous year(s).</p>	Obtain explanations for variances that are 15% or more.
Either gross annual expenditure or income or both exceed £500,000 but less than £2,000,000	<p>‘Intermediate level’ review procedures.</p> <p>On completion of their work auditors enter their certificate and report on the AGAR.</p>	<p>Test 3 assertions and at least 1 criterion per assertion.</p> <p>Test assertions in rotation and cover all assertions at least once every five years</p>	Obtain explanations for variances that are the lower of 15% or £100,000.



		Follow up on matters raised in previous year(s).	
Either gross annual expenditure or income or both exceed £2,000,000	<p>‘Intermediate level’ review procedures.</p> <p>On completion of their work auditors enter their certificate and report on the AGAR.</p>	<p>Test 3 assertions and at least 1 criterion per assertion.</p> <p>Test assertions in rotation and cover all assertions at least once every five years.</p> <p>Follow up on matters raised in previous year(s).</p> <p>Obtain and review internal audit reports and consider the implications of internal audit’s findings for their own limited assurance work.</p>	Obtain explanations for variances that are the lower of 15% or £100,000.
<p>Assertion testing:</p> <p>Where a smaller authority has been identified as being particularly high risk (this could be due to a prior year qualification, exercise of additional reporting powers, or persistent errors in accounts) auditors may choose to apply procedures in excess of those outlined in the table above.</p>			
<p>Analytical review:</p> <p>Where the auditor deems it appropriate due to an identified risk, they may use a lower threshold for considering a variance.</p> <p>An explanation which simply reduces the unexplained year-on-year variance to a figure below 15% may not, in itself, be sufficient. Auditors may wish to consider seeking further explanation, where they do not feel that a sufficient proportion of the year-on-year variance has been adequately explained.</p>			

Where significant year-on-year variances have not been adequately explained by the smaller authority with information initially supplied, the auditor should request additional explanations and supporting information.

‘Basic level’ review procedures

25. The ‘basic level’ review involves the following procedures:

- i) Undertake an initial review of the AGAR, including the annual governance statement, ensuring that it is fully completed, signed and dated in accordance with the requirements for completion.
- ii) Obtain, with the AGAR from the authority, the following key information:
 - year-end bank reconciliation; and
 - explanation of significant year-on-year variances in the accounting statements as specified in the table at paragraph 24.
 - There is no prescribed format for a bank reconciliation, but an example is provided in the Practitioners’ Guide. Smaller authorities may attach annotated copies of bank statement pages covering the 31 March financial year-end to the reconciliation. Annotated bank statements are only acceptable as an alternative to providing a bank reconciliation where there are no unrepresented cheques.
 - The definition of ‘significant’ is a matter of auditor judgement, taking account of factors such as the auditor’s knowledge of the smaller authority.
- iii) Obtain the following third-party confirmations:
 - local council precept data for the relevant financial year (this might be done most efficiently by making use of the firm’s arrangements in place with billing authorities in each contract area or by reference to the MHCLG database); and, where relevant,
 - information about balances of borrowings by smaller authorities from the Public Works Loan Board (PWLB).

- In exceptional circumstances, the auditor should obtain independent verification of bank and investment balances, or non-PWLB borrowings, if irregularity with regard to cash is indicated. This may be as a result of the completion of specified procedures, or from unresolved errors or omissions on the AGAR, or from other information coming to the auditor's attention. Auditors should inform the smaller authority when taking this action, recognising that there may be additional cost, as banks may charge for this service.

'Intermediate level' review procedures

26. The intermediate level review involves the basic level procedures, plus additional procedures, as follows, to reflect the risks associated with higher levels of activity:
- i) Identify assertions in the annual governance statement in section 1 of the AGAR to test how well the smaller authority understands its responsibilities and duties, using the testing levels specified at paragraph 24 and the illustrative tests detailed in Appendix 1 which forms part of the guidance in this AGN.
 - ii) In deciding how to apply the testing schedule at Appendix 1, take into account the auditor's:
 - risk assessment; and
 - cumulative knowledge and experience.
 - iii) To determine the extent and frequency of testing, consider:
 - the level of compliance with requirements, including previous reporting by internal and external auditors; and
 - the outcome of analytical review. Where auditors have selected the smaller authorities for which intermediate level procedures will be undertaken in advance of receiving AGARs, auditors should still consider whether additional tailored work is required on particular smaller authorities, based on their review of the information received. Auditors should, in particular, consider any inconsistent responses or significant unexplained year-on-year variances.
 - iv) Evidence requested by auditors for intermediate level procedure reviews should be proportionate to their assessment of risk.

- v) Auditors should minimise additional information requests by planning a cyclical approach to the review of the annual governance statement based on risk.
- vi) In order to reduce the frequency of correspondence and to provide a reasonable time for response, the NAO recommends that auditors highlight additional evidence being sought for intermediate level review when first making contact with the smaller authority at the start of each annual cycle.

Additional enquiries or work at the largest smaller authorities

27. In his report, published in September 2020, Sir Tony Redmond recommended that consideration be given to whether the current level of external audit work commissioned is proportionate to the nature and size of such organisations, as some respondents to the Review's Call for Views noted that the role of some smaller authorities was expanding, along with increases in annual expenditure.
28. Where a smaller authority has annual income or expenditure in excess of £2,000,000, auditors should undertake the following additional procedures and consider the implications of internal audit's findings for their own limited assurance work. The expectation that smaller authorities will have these arrangements in place is drawn from Chapter Four of the Practitioners' Guide and the requirements of chapter One in relation to completing the Annual Governance Statement in the AGAR.
29. The additional procedures comprise:
- obtaining copies of bank statements to support the figures used in the authority's year-end bank reconciliation;
 - obtaining evidence that the authority considers annually the independence of the internal auditor (Practitioners' Guide 2023 Paragraphs 1.35 and 4.11);
 - obtaining evidence that when appointed, the authority satisfied itself with regard to the competence of the internal auditor and agreed a letter of engagement (Practitioners' Guide 2023 Paragraphs 1.35, 4.8 and 4.13);
 - obtaining evidence that the authority annually considers and agrees the internal audit programme of work, having regard to the authority's identified risks where these are relevant to internal audit (Practitioners' Guide 2023 Paragraphs 1.35 and 4.16); and

- obtaining and review internal audit reports for the authority, obtaining evidence that recommendations made by internal audit have been addressed (Practitioners' Guide 2023 Paragraph 1.37 (Assertion 7))
30. In instances where further evidence or information is required from a smaller authority, auditors should give the smaller authority reasonable opportunity to comply before undertaking additional work.
31. Where examination of the AGAR indicates that additional work is required by the auditor before they can report, the auditor should identify the specific area of concern and the additional work required, targeted at the specific area of concern, inform the authority before commencing the work and, if the work takes place over an extended period, update the authority on the progress and cumulative cost.

Refusal to provide information

32. Where smaller authorities, their members or officers refuse to provide information and explanations reasonably requested by the auditor, they are in breach of section 22 of the Local Audit and Accountability Act 2014, which grants appointed auditors:
- a right of access at all reasonable times to documents relating to a smaller authority which appear necessary for the purposes of the auditor's functions;
 - a right to obtain information and explanations; and
 - a power to direct somebody to appear before them.
33. In circumstances where information or explanations are not forthcoming, auditors should consider drawing the specific attention of officers or members of smaller authorities to the provisions of section 22, being careful:
- to specify documents being sought or requiring attendance to provide information or explanations;
 - to avoid directing any action which falls outside section 22 (for example, auditors are not entitled to information in respect of which a claim to legal professional privilege could be maintained in legal proceedings);

- explicitly to draw attention to the criminal offence arising from noncompliance and the liability to a fine for continued non-compliance; and
 - to state that any expenses incurred in connection with proceedings under section 23 are recoverable from the smaller authority. (Auditors may wish to exercise discretion in respect of smaller authorities which have no income or expenditure, since charges will give rise to expenditure in respect of the following year).
34. Auditors should seek appropriate guidance before drawing the attention of a smaller authority or person to the provisions of section 22 for the first time.

Reporting Procedures

35. Auditors report their opinion and any 'other matters' in section 3 of the AGAR. If space limitations prevent complete reporting, then continuation sheets may be used. If continuation sheets are used, they must be clearly marked as being part of the AGAR reviewed by the auditor and subject to display and inspection in accordance with the requirements of the Accounts and Audit Regulations.
36. Auditors should have regard to the following principles when reporting the results from either basic or intermediate review procedures:

Professional judgement

37. Auditors should always exercise professional judgment in deciding on whether to qualify an AGAR and whether any additional reporting is necessary.

Considering qualification

38. Where the auditor concludes that proper practices have not been complied with, auditors should consider the implications for their report, including whether or not to issue an 'except for' qualification.
39. Where an auditor decides that the issue is sufficiently minor that a qualified report is not appropriate, there is no requirement to include the issue as an 'other matter' on the AGAR. Auditors who wish to draw authorities' attention to such issues may do so

via observations in the closure letter, along with any other observations in relation to administrative matters aimed at improving the review process in the future.

40. However, there are circumstances in which the smaller authority may not have complied with proper practices (such as, for example, failure to provide properly for the exercise of electors' rights), and where it has answered 'No' to the relevant assertion in the AGS.
41. Where smaller authorities have disclosed non-compliance correctly, auditors may elect not to issue an 'except for' qualification in that respect but may still wish to draw attention to the facts surrounding the disclosure as an 'other matter'.
42. Where the smaller authority has answered 'No' to one or more assertions for several years or has answered 'No' to several assertions within a single AGAR, auditors may wish to consider whether it is appropriate to exercise any of their additional reporting powers, such as making written recommendations under Schedule 7 of the 2014 Act or issuing a Public Interest Report.

Other matters

43. 'Other matters' reporting should generally be used for issues that are not directly related to the figures in section 2 of the AGAR or the assertions in the annual governance statement, such as reporting on current year failures in respect of provision for the exercise of public rights, which are not covered by the assertions in the annual governance statement. Auditors may, however, wish to consider the use of 'other matters' reporting:
 - to draw attention to significant weaknesses in governance arrangements which have come to the attention of the auditor;
 - to draw attention to issues such as failure to provide requested information with the AGAR or in response to subsequent queries; and
 - to draw attention to cases where the auditor has undertaken additional work to report on the AGAR, for example, where the AGAR has been returned to the smaller authority for correction of errors identified in section 2 prior to the auditor giving their opinion.

44. 'Other matters' reporting should **not** be used:

- as a less serious alternative to qualification;
- as a 'warning' to authorities when they have failed to meet any new requirements introduced to proper practices;
- where non-compliance has been identified for the first time; or
- in connection with uncorrected errors identified in section 2 (see paragraphs 38-39).

45. Where the auditor chooses to report under 'other matters', they should consider whether it is also appropriate to exercise additional powers through issuing written recommendations under Schedule 7 of the 2014 Act or issuing a Public Interest Report.

Non-response from smaller authorities

46. In the event of non-response by the clerk or equivalent, auditors should take prompt action in line with their firm's policies to secure a response. Auditors should consider exercising formal powers in cases where smaller authorities are not responsive. Non-response can cover a range of circumstances, including:

- failure to submit an AGAR;
- failure to notify the auditor of the dates of the period for the exercise of public rights; and
- failure to respond to additional queries, to which the auditor requires answers in order to conclude their review, including, for example, failing to provide adequate explanations for significant year-on-year variances.

47. Where it has not been possible to obtain the document or the information required, despite the auditor's best efforts, auditors should:

- engage with the smaller authority in a manner that is proportionate to the size and level of activity at the authority. This could include:
 - taking no further action other than writing to the smaller authority (or the relevant Monitoring officer) to place on record the fact that the body has failed to submit either an AGAR or a certificate of exemption, but to note that the auditor has decided to take no further action in the interests of proportionality as required by the 2020 Code of Audit Practice (paragraph 1.10).
 - considering a written recommendation under Schedule 7 of the Local Audit and Accountability Act 2014. The recommendation should be timebound and require the authority to produce and submit an AGAR for review. The authority would then be obliged to consider the recommendation publicly and formulate a response; and
 - considering a Public Interest Report indicating the auditor's intention to certify closure of the assurance engagement, if the written recommendation does not lead to the authority producing and submitting an AGAR within the time period specified.
48. The Public Interest Report should set out the actions that the auditor has taken to try to obtain an AGAR. In certifying closure, the auditor should draw attention to the consequential loss of public rights in respect of the year of audit, and clearly explain that this is due to the authority's failure to comply with its statutory duties, including failure to respond to a written recommendation from the auditor.
49. It is recommended that, where the auditor follows the approach in paragraph 47 above, that they wait until the publicity requirements following a Public Interest Report have been complied with, and the authority has notified the auditor under paragraph 10(1) Schedule 7 of the 2014 Act and provided a summary of the decisions approved (or a reasonable period has passed for this to happen).
50. Where the auditor follows this approach, and the authority produces an AGAR for the following year, the auditor may need to undertake additional work in order to verify opening balances as well as year-end balances.

Specific considerations in respect of exempt authorities

51. Where a matter is brought to the auditor's attention during the year, the auditor should consider whether, in their judgement, the matter requires them to act immediately (such as issuing an advisory notice, a recommendation under Schedule 7, or an immediate Public Interest Report). In such circumstances, the auditor should act immediately and not wait to see whether the authority subsequently certifies itself exempt.
52. If, in the auditor's judgement, the matter does not require them to act immediately on the basis of the above additional powers, in most circumstances it is unlikely to be appropriate for the auditor to take any action during the audit year (beyond perhaps pointing the person raising the issue to the authority or other appropriate body for further information) such that the auditor should wait until they know whether the authority is certifying itself exempt for the year in question. If the authority does not then certify itself exempt or will not be exempt for other reasons, the auditor should then consider the information to the extent to which it impacts on their limited assurance review or the exercise of their additional powers and duties for the year in question.
53. If, after the year end, the authority certifies itself exempt, the auditor should not take any further action in respect of the previous year unless they receive a formal question or an eligible objection from an elector during the period for the exercise of public rights.

Certifying completion

54. On completion of their work, auditors are required to issue an opinion on the AGAR and to certify closure of the assurance engagement.
55. Issuing the auditor's certificate means that all the auditor's responsibilities, duties and powers in respect of that particular financial year have ended. Once issued, it is no longer possible for the auditor to issue any further reports in respect of that year or revisit any conclusions. In addition, the auditor is no longer able to consider any matters brought to their attention, formal questions or objections in respect of that year.
56. For authorities that have certified themselves exempt, auditors need not issue a certificate of completion, unless the auditor has received any formal questions or eligible objections in respect of that authority, or where the authority has ceased to be exempt (for example, because the auditor has exercised any of their additional powers under the Act after the authority has certified themselves as exempt).

57. As a result, there are a number of circumstances in which it would not be appropriate for the auditor to certify completion, even though they may be in a position to issue their opinion. These are summarised in paragraphs 58 to 67 below. Where the auditor, in having regard to AGN 02, considers it appropriate to withhold the certificate, they should write to the smaller authority explaining the circumstances for the delay.

Exercise of public rights

58. Auditors will not be able to certify completion of their assurance engagement until the period set by the authority for the exercise of public rights has elapsed. Failure of the authority to commence the period at the appropriate time may therefore delay the auditor's ability to report the results of their work. In circumstances where the auditor is unable to determine whether or not the period for the exercise of public rights has taken place and come to an end, they should refer to the above section on nonresponse from smaller authorities.
59. Where the auditor decides not to exercise additional powers in respect of non-response in accordance with paragraph 49 above, they will not be able to certify completion unless they can be assured that a period for the exercise of public rights took place and has elapsed. Auditors should therefore reserve the right to consider further action in the future in relation to non-response should they consider it to be appropriate.

Considering objections

60. In the event of an outstanding objection, the auditor will not be able to certify completion until the objection matter is resolved. Auditors may, however, elect to issue their opinion on the AGAR, if they are satisfied that the issue in question does not have a material impact.
61. Where the auditor is unable to conclude on the objection in time to enable the smaller authority to publish their reviewed AGAR by 30 September, auditors may elect not to qualify their report in this respect and explain the reason for the delay in 'other matters'.

Exercising auditors' additional powers and duties

62. Where the auditor is considering the exercise of any of their additional powers and duties, as set out in *AGN 04 – Auditors' Additional Powers and Duties*, they should not

issue their certificate, but may consider issuing their opinion on the AGAR, if they are satisfied that the issue in question does not have a material impact.

Matters being considered by third parties

63. In rare instances, where the police or other competent authorities may be undertaking enquiries into a matter, the outcome of which might reasonably be relevant to the exercise of the auditor's formal powers, auditors should not certify completion of the assurance engagement until the matter has been resolved. However, where possible auditors should seek to issue their report in accordance with the normal timetable whilst withholding their certificate.

Delay in completion of previous assurance engagements

64. Similarly, circumstances may arise where basic or intermediate level work has been completed, but a matter is subject to consideration in respect of a previous year by the auditor or by a third party, meaning that the auditor has not certified completion of the relevant procedures. In these circumstances, the auditor may elect to issue their opinion on the AGAR if they are satisfied that the issue in question does not have a material impact.
65. If the opinion on the AGAR is given in advance of issuing the certificate, auditors need to consider when issuing the certificate whether anything has come to their attention since giving their opinion that might have a material impact on their opinion.
66. Where such issues are identified, auditors need to consider whether, if that information had been available when the opinion was given, a different opinion would have been given. If so, reference to that fact is required in the certificate. Equally, if no matters have come to the attention of the auditor that would have resulted in a different opinion being issued, a statement to that effect should be included in the certificate.
67. Further information to assist auditors in drafting such reports will be made available to auditors via the NAO's LACG extranet. General guidance for auditors on reporting can be found in *AGN 07 – Auditor Reporting*.

Other Information to Help Support Auditors to Carry Out their Functions Effectively

68. The nature and circumstances of smaller authorities are such that auditors may face difficulties or possible delays impacting on their ability to carry out their functions effectively. For example, auditors may need to consider the implications for their work of common issues encountered when considering particular assertions contained within the annual governance statement.
69. Supporting information has been made available on the NAO's LACG extranet to assist auditors in determining their response to these issues, while having regard to the guidance contained within this AGN. 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.



Other Support and Raising Technical Issues or Queries on this AGN

70. Auditors in firms should raise queries within the firm, in the first instance, so that the relevant technical support service can consider whether to refer queries to the NAO's Local Audit Code and Guidance (LACG) team by e-mailing LACG.queries@nao.org.uk
71. 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.



Appendix 1 – Intermediate Level Reviews – Further Tests and Documentation

Annual Governance Statement Assertion	Review Objectives	Possible Additional Audit Evidence
<p>Assertion 1</p> <p>“We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.”</p>	<p>Confirm the smaller authority understands ‘proper practices’ and the requirements of the Accounts and Audit Regulations.</p> <p>Confirm arrangements for producing accounting statements in accordance with regulations and proper practices.</p> <p>Confirm arrangements for reviewing bank reconciliation.</p> <p>Confirm the arrangements that were in place during the year under review for setting and approving the budget and consideration of precepts required in accordance with proper practices.</p> <p>Confirm arrangements for monitoring actual performance against the budget during the year under review. (Practitioners’ Guide – requirements for Assertion 1)</p>	<p>Written assurance that members have access to a copy of the Practitioners’ Guide and the Accounts and Audit Regulations (or summarised requirements).</p> <p>Copy of accounting records on which the AGAR is based.</p> <p>Copy of extended trial balance (if prepared on an Income & Expenditure basis).</p> <p>Copy of closing bank statements*.</p> <p>Copy of budget and minutes of meeting where budget was approved.</p> <p>Copies of monitoring documents throughout the year.</p>



Annual Governance Statement Assertion	Review Objectives	Possible Additional Audit Evidence
<p>Assertion 2</p> <p>“We have maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.”</p>	<p>Confirm that system of internal control is fully documented.</p> <p>Confirm arrangements to report on internal controls and arrangements to prevent and detect fraud and corruption.</p>	<p>Copy of internal auditor’s reports.</p> <p>Copy of minute(s) where internal controls discussed/approved.</p> <p>Copy of annual review of internal control or minute relating to its consideration.</p>
<p>Assertion 3</p> <p>“We have taken all reasonable steps to assure ourselves that there are no matters of actual or potential noncompliance with laws, regulations and codes of practice which could have a significant financial effect on the ability of the smaller authority to conduct its business or on its finances.”</p>	<p>Confirm that all expenditure and income decisions made are within existing powers and minuted.</p> <p>Confirm that the smaller authority has adopted Standing Orders and Financial Regulations.</p> <p>Confirm that the smaller authority has adopted, provides training on, and applies applicable Codes of Conduct.</p>	<p>Copies of minutes for a selected period showing expenditure and income powers have been properly identified.</p> <p>Copy of Standing Orders/Financial Regulations and/or minute adopting or periodically reviewing.</p> <p>Copies of members’ acceptance of office.</p> <p>Evidence of training on Codes of Conduct.</p>



Annual Governance Statement Assertion	Review Objectives	Possible Additional Audit Evidence
<p>Assertion 4</p> <p>“We have provided proper opportunity during the year [20XX-XX] for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations.”</p>	<p>Confirm that the smaller authority advertised the commencement of the period for the exercise of public rights in respect of the previous year’s annual return.</p> <p>Confirm that the notice of completion of the auditor’s work was published in accordance with the Accounts and Audit Regulations 2015, as amended.</p> <p>In both of the above cases, this would usually be on the council’s website. Where the smaller authority does not have a website, this can be on another free-to-access website. In respect of Parish Meetings, display in a conspicuous place for 14 days is an acceptable alternative to a website.</p> <p>Confirm that accounts have been made available to electors.</p>	<p>Copy of notice and evidence of its publication (including on a website where required), along with the annual return, confirming that the Accounts and Audit Regulations were met.</p> <p>Copy of prior year notice of completion of the auditor’s work on the annual return, and evidence of its publication.</p> <p>Details of provision made for inspection of the accounts during the financial year covered by the auditor’s opinion.</p>



Annual Governance Statement Assertion	Review Objectives	Possible Additional Audit Evidence
<p>Assertion 5</p> <p>“We have carried out an assessment of the risks facing the smaller authority and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.”</p>	<p>Confirm arrangements for risk management and how this has been carried out/updated and/or considered by the smaller authority.</p> <p>Confirm that appropriate insurance cover for identified risks is in place.</p> <p>Confirm that the smaller authority regularly seeks assurance regarding internal controls.</p>	<p>Copy of minutes of meetings considering risk management and insurance coverage.</p> <p>Copy of risk assessment documentation or reports (if any).</p>
<p>Assertion 6</p> <p>“We have maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.”</p>	<p>Confirm that internal audit does not undertake tasks or give advice which may compromise or fetter their independence or invalidate the smaller authority’s insurance.</p>	<p>Copy of minute appointing/reappointing internal audit.</p> <p>Copy of letter of engagement scoping internal audit and minutes of annual review of internal audit.</p>

Annual Governance Statement Assertion	Review Objectives	Possible Additional Audit Evidence
<p>Assertion 7</p> <p>“We have taken appropriate action on all matters raised in previous reports from internal and external audit.”</p>	<p>Confirm that all reports of internal and external auditors have been considered by the smaller authority.</p> <p>Confirm that there are no outstanding matters from previous auditors’ reports.</p>	<p>Copy of minutes recording consideration of auditors’ reports.</p> <p>Copy of agreed action plans to implement recommendations.</p>
<p>Assertion 8</p> <p>“We have considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on the body and where appropriate have included them in the accounting statements.”</p>	<p>Confirm that the smaller authority has budgeted for adequate but not excessive reserves.</p> <p>Confirm that where there are any claims against the smaller authority, any uninsured portion has been taken into account in budget setting.</p> <p>Confirm there have not been any significant events after the year end that would impact the financial statements.</p> <p>Confirm the smaller authority obtained appropriate approval for any borrowing.</p>	<p>Copy of reports and minutes supporting budget setting.</p> <p>Details of any claims outstanding against the smaller authority.</p> <p>Minutes of meetings after year end.</p> <p>Details of any current or planned lottery bids.</p> <p>Details of capital programme.</p> <p>Details of any loans*.</p>

Annual Governance Statement Assertion	Review Objectives	Possible Additional Audit Evidence
<p>For local councils only (where applicable)</p> <p>Assertion 9</p> <p>“Trust funds (including charitable) – in our capacity as sole managing trustee, we have discharged our responsibility in relation to the accountability for the fund(s)/assets, including financial reporting and if required, independent examination or audit.”</p>	<p>Where line 11 of the accounting statements discloses a council is a sole trustee:</p> <ul style="list-style-type: none"> • Confirm trust accounts prepared in accordance with trust deed and reported to Charity Commission requirements. • Confirm banking arrangements for council and trust allow adequate separation. • Confirm date of annual filing of trust accounts. • Confirm that council distinguishes clearly when acting in capacity as a trustee. 	<p>Annual report to Charity Commission.</p> <p>Copy of charity accounts and auditor’s or examiner’s report (where relevant).</p> <p>Copy of bank statement for trust fund*.</p> <p>Minutes of meetings at which council acts in capacity of trustee.</p>

*Note that auditors may also consider obtaining independent third-party verification.