



National Audit Office

Consultation document
by the National Audit Office

Local audit in England Code of Audit Practice

Draft Code Consultation

February 2024

We are the UK's independent public spending watchdog.

We support Parliament in holding government to account and we help improve public services through our high-quality audits.

The National Audit Office (NAO) helps Parliament hold government to account for the way it spends public money. It is independent of government and the civil service.

The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether government is delivering value for money on behalf of the public, concluding on whether resources have been used efficiently, effectively and with economy. The NAO identifies ways that government can make better use of public money to improve people's lives. It measures this impact annually. In 2022, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £572 million.

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Introduction

- 1 The Local Audit and Accountability Act 2014 (the 2014 Act) makes the Comptroller and Auditor General (C&AG) responsible for the preparation and maintenance of the Code of Audit Practice (the Code) and gives the C&AG the power to issue guidance to auditors in support of the Code, to which auditors must have regard when carrying out their work. Schedule 6 of the 2014 Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2020.
- 2 This document provides a summary of the key changes included in the draft Code along with the main draft Code text. Note that the Code text included in this document excludes the preface, glossary and Schedules 1 and 2 which are factual references only and are to be updated during the consultation.

How to respond

- 3 **Please respond by Thursday 7 March 2024.**
- 4 We have set out in this paper the proposed changes to the relevant sections of the Code.
- 5 When answering the consultation questions, it would be very helpful if you could please refer as far as possible to the relevant Chapter of the draft Code and paragraph(s) and also provide additional explanation and detail where appropriate, to help us understand the basis for your comments.
- 6 You do not need to respond to all the consultation questions set out in this document; we welcome brief or partial responses addressing only those issues where you wish to put forward a view. If there are further observations you would like to make in addition to the questions included in this consultation, however, feel free to include these in your response.
- 7 Please email your response to lacg@nao.org.uk.
- 8 If you need paper copies of this consultation document, please let us know using the email address above and provide us with your contact details. We will be happy to post copies to you.
- 9 We may draw on your responses when explaining how we have acted on the consultation, or if we need to follow up matters raised with some or all other respondents. Therefore, your comments will be regarded as public unless you let us know that they should not be. If so, please let us know when you submit your response whether you consider all or part of your submission to be confidential.

Background and context

Scope of the consultation

- 1 The Code of Audit Practice is a key document setting out how local auditors in England meet their responsibilities under the 2014 Act. Local public services account for a significant amount of public spending, delivering many of the public services local taxpayers rely on every day. Much of this money is raised through taxation, so public audit is wider in scope than that of the private sector. Taxpayers, national bodies and other stakeholders reasonably expect that the auditor will be able to provide assurance over whether the accounts have been properly prepared and are free from material error, and whether the body has proper arrangements in place to manage its business and finances. Through the principles set out in the Code, local auditors are expected to have regard to this wider scope by maintaining their independence, acting proportionately and efficiently, and reporting effectively to the public.
- 2 In the C&AG's 'Progress update: Timeliness of local auditor reporting on local government in England', January 2023¹, he reported the significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. Just nine per cent of local government bodies received opinions in time to publish audited 2020-21 financial statements by the 30 September deadline. This was a significant reduction from 45% for 2019-20, even allowing for the tighter publication deadlines compared with the previous year. Only 12% of local government bodies received opinions in time to publish audited 2021-22 financial statements by the deadline, despite a further extension of the publication deadline to 30 November 2022.
- 3 At the LGA Local Government Finance Conference in January 2024, the C&AG noted that at the end of December 2023 only 45 audits for 2022-23 had been completed leaving 422 outstanding and a cumulative backlog of 771.
- 4 Delays in audit opinions undermine the effectiveness of local audit: for example, accountability and transparency are reduced for relevant authorities as users of the accounts cannot obtain an accurate picture of authorities' financial position. Delays also undermine the effectiveness of value for money arrangements work and the exercise of additional powers, as there is an increased risk that recommendations, reports and other interventions will come too late to have their desired impact.
- 5 There are also detrimental impacts elsewhere in the public audit system including delays to the certification of central government accounts that include material local government pension scheme information, delays in publication and risks of reduced quality for the Whole of Government Accounts. The delivery of audits at local NHS bodies is also affected, as they rely on the same market of local audit firms as local government bodies.
- 6 Minister Lee Rowley, the then Minister for the Department for Levelling Up, Housing and Communities'(DLUHC) issued a cross-system statement (14 July

¹ NAO report Progress update: Timeliness of local auditor reporting on local government in England', January 2023: <https://www.nao.org.uk/reports/progress-update-timeliness-of-local-auditor-reporting-on-local-government-in-england/>

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2023)² on proposals setting out the actions that the local audit sector and others propose to take to tackle the issue of delays in local public audit, clear the current backlog and return local audit to a sustainable footing. In line with the system-wide objectives outlined by the Minister, the C&AG has established a Programme Board to develop proposals to consider in relation to a replacement Code which aims to play its part in bringing local auditor reporting up to date and ensure that reporting in future is more timely.

- 7 The new Minister for Local Government, Simon Hoare MP, also wrote to the Chair of the Levelling Up, Housing and Communities Committee on 9 January 2024, confirming that resolve to address these issues remained strong and acknowledging the forthcoming consultations on proposals to clear the backlog and restore timely local audit.
- 8 Given the requirement for concerted action, system partners have published a joint statement explaining the package of measures and how the various elements are intended to interact. This joint statement, which can be accessed at <https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation/local-audit-delays-joint-statement-on-update-to-proposals-to-clear-the-backlog-and-embed-timely-audit>, provides vital context for this consultation, and should be reviewed before responding.
- 9 DLUHC is also consulting, in parallel to this consultation, on related changes to the Accounts and Audit Regulations 2015. Further detail on DLUHC's proposals can also be found in the joint statement.
- 10 CIPFA is also consulting, in parallel to this consultation, on related changes to the Code of Practice for Local Authority Accounting. Further detail on CIPFA's proposals can also be found in the joint statement.

² Local Audit Delays – Cross-system statement on proposals to clear the backlog and embed timely audits, 14 July 2023: committees.parliament.uk/publications/40932/documents/199432/default/

Summary of proposed changes to the draft Code

- 1 This section summarises the changes proposed within the main text of the draft Code.

Chapter One: Status of the Code, application and general principles

- 2 Paragraph 1.5 of the Code is amended so that it applies to all incomplete audits from 2015-16 onwards. This is to allow auditors to incorporate outstanding Value for Money (VFM) arrangements reporting for historic years into a single output under a reduced scope. Auditors will, however, still need to report by exception where they are not satisfied with arrangements to secure VFM in a particular year in that year's audit report.
- 3 Public Sector Audit Appointment's national auditor appointment scheme covers 470 (99%) out of 475 eligible local government bodies. The most recent procurement covered audits from 2023-24 to 2027-28. Major procurement exercises often lead to more changes in auditor portfolios, but on this occasion, in addition to the changes in auditor appointments, the period of time between a new auditor being appointed and the previous auditor completing their work is extended considerably by the backlog. The Code therefore aims to be more explicit that co-operation between auditors includes this extended 'handover period'. It also aims to ensure that any significant current issues arising during this extended period are identified and reported on in as timely a manner as possible.

Chapter Two: Audit of the financial statements

- 4 The 2014 Act sets out the requirement for local auditors to give an opinion on the body's statement of accounts. To meet their duties, the current Code requires auditors to comply with auditing standards currently in force (and as may be amended from time to time), having regard to any other relevant guidance and advice issued by the Financial Reporting Council (FRC), and the NAO on behalf of the C&AG.
- 5 One of the proposals outlined in the then Minister's cross system statement is for DLUHC to set a series of statutory deadlines known as 'backstop' dates for accounts preparers and auditors to clear the backlog of delayed audits for financial years 2015-16 to 2022-23. This would introduce for each

financial year a date before which auditors would be required to give their opinion on a local authority's accounts. Local authorities would also be required to approve their accounts as 'final' by the same date. This would mean that for any given year, there would be a date by which almost all local authorities would have had their audits completed, even if that means the opinion is qualified or disclaimed (modified).

- 6 DLUHC also proposes to have ongoing backstop dates to be set out in the Accounts and Audit Regulations for years up to and including 2027-28. These backstop dates are intended to achieve a balance between restoring timely audit and returning to unmodified audit opinions for the majority of local authorities.
- 7 While the 'backstop' date(s) would be introduced through regulation and the Code, it will remain for the appointed local auditor to determine what type of opinion they issue and, especially in relation to more recent years, there is the likelihood that there will be fewer unqualified opinions issued than would normally be expected. Where a modified opinion is as a result of the introduction of backstop dates, it is expected that the audit report will make this clear.
- 8 The Code also sets out circumstances in which it may not be possible for the auditor to issue their audit report in time for the relevant authority to publish its accounts by the specified date. Such circumstances include where the auditor is considering an objection that may have a material impact on their opinion on the financial statements; where in the auditor's judgement recourse to the Court could be required; or where the auditor is unable to conclude as to whether they are satisfied with the body's VFM arrangements.

Chapter Three and Schedule 3: The auditor's work on value-for-money arrangements

- 9 The 2014 Act places a specific duty on the local auditor to be satisfied whether the body they are auditing has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. In the current Code. This is referred to as work on arrangements to secure value for money (VFM arrangements).

- 10 The Code currently requires auditors to write a commentary on the body's arrangements against specified reporting criteria: financial sustainability; governance; and improving economy, efficiency and effectiveness. Where the auditor identifies a significant weakness in arrangements, they should report them to the body and raise recommendations setting out what the body needs to do to address them.
- 11 It is clear from our on-going engagement with local auditors and the sector that significant delays to VFM arrangements work is reducing the value added. While we have evidence of some auditors using the approach to raise concerns in a more timely manner, given the extent of the backlog of work, this is not the case more generally.
- 12 While the Code is not proposing any significant changes to the principles of the overall approach currently applied, Schedule 3 introduces a reduced scope of VFM arrangements work for incomplete audits from 2020-21 up to and including 2022-23. To bring reporting up to date, the work required focusses on aspects of financial sustainability and governance, with full scope VFM arrangements work across all three criteria proposed to be restored by 2023-24, the first year of the new audit contracts.
- 13 We recognise that this will mean that VFM arrangements reporting for incomplete audits up to and including 2022-23 will vary in terms of its coverage depending on when the auditor undertakes the work and the approach taken by individual audit firms. We believe however, this compromise is necessary to restore timely VFM arrangements reporting as quickly as possible.
- 14 Where the auditor identifies significant weaknesses in arrangements, for historic years (incomplete audits up to and including 2022-23) auditors would not need to make a recommendation where they were satisfied that the issue had been resolved. From 2023-24, however, the proposal is that a requirement for recommendations would return.

Chapter Four and Schedule 4: Reporting the results of the auditor's work

- 15 Local auditors undertake a key role in providing local bodies, local people and other stakeholders with independent assurance about their financial statements and arrangements to manage their business and finances. It is therefore essential that the way this is reported to local bodies – and to the public – is as effective and transparent as possible and promotes local improvement. Auditors need to ensure that where they are identifying risks and issues, they are drawing attention to them promptly and clearly, so that bodies can take appropriate corrective action and the executive can be held to account.
- 16 Under the 2020 Code, the auditor's annual report brought together all of the auditor's work over the year. A key element of the auditor's annual report is the commentary on the specified reporting criteria regarding VFM arrangements set out in Chapter Three. In order to bring reporting up to date and recognising the perishability of the usefulness of this work for outstanding audits, Schedule 4 of the Code allows for the combining of historic years' auditor's annual reports to a single report covering incomplete years' VFM arrangements work and focussing on significant weaknesses.
- 17 For incomplete audits up to and including 2022-23, the draft Code sets the requirement that auditors should aim to issue their auditor's annual report as soon as they have completed their work on VFM arrangements.
- 18 Chapter Four then proposes to require that from 2023-24, the auditor's annual report instead provides a summary of progress on the audit at the time of issue, and for local government bodies only, will be expected to be issued in draft to those charged with governance by 30 November each year, irrespective of the position on the audit. This will enable auditors to report regularly on most of the VFM arrangements work in a more timely and predictable way. The Code will not require auditor's annual reports to be reissued once the audit is fully complete. Any issues identified by the auditor after issuing their auditor's annual report are expected to be included in their report for the following year.
- 19 For local NHS bodies, proposals are that auditors should aim to issue their auditor's annual report no later than one month after the date on which they have issued their audit report. Where the auditor is unable to issue their audit report in accordance with the requirements set out in the NHS timetable, the auditor should consider whether it is in the public interest to issue their auditor's annual report to reflect the work completed to date.

- 20 The C&AG has previously issued guidance to auditors (under paragraph 9 of Schedule 6 of the Local Audit and Accountability Act 2014), initially in response to the COVID-19 pandemic and the ongoing delays in local audit, known as 'special reporting provisions'. These enabled auditors to report in respect of significant weaknesses in VFM arrangements later than the time of issuing the opinion on the financial statements.
- 21 In order to encourage more timely reporting, the C&AG proposes to remove the 'special reporting provisions' relating to VFM arrangements work and again require auditors to report on significant weaknesses in arrangements by exception in the opinion on the financial statements.
- 22 This means that where auditors have not been able to complete their work to satisfy themselves as to whether there are significant weaknesses in VFM arrangements, they will not be able to issue their opinion on the financial statements until they have completed their work.

Chapters Five and Six: The auditor's additional powers and duties and Smaller Authority Assurance Engagements

- 23 A paragraph has been added to Chapter 5 relating to the auditor's additional powers and duties where a qualified or disclaimed opinion is issued on the financial statements that is not as a result of any statutory publication requirements for audited financial statements.

Code consultation questions

Code of Audit Practice Chapter One

Question 1 – Do you agree with the principles of effective co-operation during the handover period where there is a change in the appointed auditor? (The handover period is defined as the period from the date from which the new auditor’s appointment takes effect to the date on which the outgoing auditor certifies completion of their audit).

Code of Audit Practice Chapter Two: for relevant authorities other than local NHS bodies

Question 2 – Do you think that the proposed Code requirements in respect of the ‘backstop’ dates are sufficient to require and enable auditors to report their opinion at the backstop date, apart from in the exceptional circumstances set out?

If not, what needs to be added or strengthened?

Code of Audit Practice Schedules 3 and 4: For relevant authorities other than local NHS bodies and in relation to audit years prior to 2023-24 that are incomplete at the date on which this Code comes into force

Schedule 3

Question 3 – Do you agree that the Code should require auditors to perform a reduced scope of work on proper arrangements to secure VFM on a temporary basis for incomplete audits up to and including 2022-23?

Question 4 – Do you have any comments on the proposals for the reduced scope of proper arrangements set out under the reporting criteria that auditors are required to report for incomplete audits up to and including 2022-23?

Schedule 4

***Question 5** – Do you agree with the approach to enable the auditor to issue a combined commentary as part of a single auditor’s annual report for incomplete audits up to and including 2022-23?*

Code of Audit Practice Chapters 3 and 4: For relevant authorities including local NHS bodies and in relation to audit years from 2023-24 at the date on which this Code comes into force

Chapter Three

***Question 6** – Do you agree that auditors should be required to return to the full scope of VFM arrangements work under the three reporting criteria set out under paragraph 3.11 of Chapter Three of the Code from audit year 2023-24 (the year of which the new audit appointments contracts under PSAA’s national scheme start)?*

Chapter Four

***Question 8** - Do you agree that the Code should specify the 30 November as the date by which auditors should issue their auditor’s annual report based on the work they have completed so far rather than wait for the audit to be fully completed?*

General Comments

***Question 9** - Are there any other comments you wish to make?*

Equality Impacts

In considering new legislation, public bodies need to ensure that they eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.

***Question 10** - Do you have any comments on whether any of the proposals outlined above could have disproportionate impact, either positively or negatively, on people with protected characteristics or wish to highlight any other potential equality impacts?*

Appendix One

Draft Code text

(Note that proposed amendments to the text are highlighted)

Chapter One

Status of the Code, application and general principles

- 1.1 This chapter covers the status of the Code, provides details on its application and sets out principles which should underpin the conduct and work of the auditor in discharging their statutory duties.

Status of the Code

- 1.2 The Comptroller and Auditor General is required to prepare the Code of Audit Practice (the Code) under paragraph 1 of Schedule 6 to the Local Audit and Accountability Act 2014 (the Act), which must be laid before Parliament under paragraph 2 of that schedule. The Code is required to be approved by both Houses of Parliament.

Application of the Code

- 1.3 The Code applies to the audit of relevant bodies as set out in Schedule 2 and Schedule 13(3)(1) to the Act. Additionally, Schedule 6 to the Act extends the duty to prepare the Code to cover the audit of NHS foundation trusts. Auditors of these bodies are required to comply with the Code.
- 1.4 The auditor should use their professional judgement to apply the principles and requirements set out in this Code to the particular circumstances that exist at different audited bodies.
- 1.5 This Code comes into force on the date of publication ('commencement date') and applies until this Code is replaced. This Code supersedes the Code of Audit Practice 2020, which was published by the National Audit Office (NAO) in April 2020. This Code applies to incomplete audits from 2015-16 onwards. This new Code will then apply for future years of account until replaced.

Principles

- 1.6 The Code takes as its starting point long-established and enduring principles of public audit, which are the wider scope of public audit; independence; and public reporting, and builds on them as set out below:

Wider scope of public audit

Public accountability

- 1.7 The audit of a public sector organisation is wider in scope than that of a private sector body. Special accountabilities attach to the use of public money and the conduct of public business. It is not part of the auditor's responsibilities to question the merits of policy, but the auditor does have wider duties (depending upon the relevant legislation) to scrutinise and report not only upon the truth and fairness of the financial statements but also on aspects of stewardship of public funds. The auditor carries out this work on behalf of the public and in the public interest.
- 1.8 The auditor does not act as a substitute for the audited body's own responsibility for putting in place proper arrangements in support of the proper conduct of public business, and for ensuring that public money is safeguarded, properly accounted for and used with due regard to value for money.
- 1.9 The auditor should, however, be mindful of the unique position they hold as a public auditor, and ensure that they have open and transparent arrangements in place that recognise their responsibilities to both the audited body and also to local taxpayers and residents.

Proportionality

- 1.10 The auditor's work should be risk-based and proportionate. It should be designed to meet the auditor's statutory responsibilities, applying the auditor's professional judgement to tailor their work to the circumstances in place at the audited body and the audit risks to which they give rise. The auditor should also consider carefully the practical and resource implications for the audited body when framing recommendations arising from their work.
- 1.11 There may be circumstances in which it appears to the Comptroller and Auditor General that aspects of the Code need to be applied in a certain way in order to meet the specific circumstances of certain bodies, for example because of the nature of their business or the relatively small amounts of public money that they control. In such circumstances, the auditor should weigh the significance of the issue against the amounts involved in relation to the size of the body concerned to determine whether further action is proportionate and in the public interest, having regard to any statutory guidance issued on behalf of the Comptroller and Auditor General.

Cooperation

- 1.12 Local public bodies increasingly operate, commission and deliver services in a range of partnerships and other forms of joint working or contracts with other public, private or third-sector bodies. In meeting their statutory duties, therefore, the auditor should consider how best to obtain assurance over such arrangements, working effectively with other auditors where appropriate.
- 1.13 The auditor should, likewise, be mindful of the activities of inspectorates and other bodies and take account of them where relevant to prevent duplication and ensure that the demands on audited bodies are managed effectively. In so doing, the auditor should be informed by the reported results of inspectorates and other bodies in relation to corporate or service performance. The auditor is not required to carry out procedures to assess the quality of, or re-perform, the work of inspectorates and other bodies, except where it would be unreasonable not to do so, for example, to provide assurance in accordance with auditing standards issued by the relevant regulatory body in support of the audit opinion on the financial statements.
- 1.14 The auditor should adopt a constructive approach to their work with the audited body. The auditor should share and discuss their audit plan at an early stage with the audited body. The auditor should build effective coordination arrangements with internal audit, using the work of internal audit where, in the auditor's judgement and in line with professional standards, this is appropriate.
- 1.15 Where there is a change in the appointed auditor, auditors should also ensure that they co-operate effectively during the handover period², having regard to any guidance issued by the C&AG to support the efficient and effective discharge of responsibilities.
- 1.16 In addition to maintaining the Code and issuing statutory guidance to auditors, the NAO has functions in respect of considering value for money across local services. To support its functions, the NAO may request information from auditors. The auditor should provide such information in response to reasonable requests.³

Independence

Integrity and objectivity

- 1.17 The auditor should carry out their work with integrity and objectivity to underpin and safeguard their independence at all times. Auditors also need to comply with the ethical framework applicable to auditors, including any ethical standards set by a relevant regulatory body, along with any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work

² The handover period is defined as the period from the date from which the new auditor's appointment takes effect to the date on which the outgoing auditor certifies completion of their audit.

³ Relevant to this is Schedule 11, paragraph 2(1)(b) and Schedule 11, paragraph 2(1)(d)(i), Local Audit and Accountability Act 2014.

would impair their independence in carrying out any of their statutory duties or might reasonably be perceived as doing so.

Professionalism

1.18 The auditor should carry out their work in compliance with the requirements of the Code, which itself requires compliance, where applicable, with standards issued by a relevant regulatory body. The auditor should conduct their work economically, efficiently and effectively, and in as timely a way as possible. The auditor should adopt an integrated approach to their work under the Code, where the knowledge gathered, and work carried out in support of each of the auditor's statutory and reporting obligations, informs the auditor's judgements as a whole.

Professional scepticism

1.19 In carrying out their work, the auditor should exercise professional scepticism. They should obtain and document such information and explanations as they consider necessary to provide sufficient, appropriate evidence in support of their judgements, both in relation to their work on the financial statements and their work on arrangements to secure value for money. The auditor should meet the requirements of legislation, the Code and, where applicable, professional standards while also having regard to statutory guidance issued by the NAO, on behalf of the Comptroller and Auditor General, under paragraph 9 of Schedule 6 to the Act.

Public reporting

1.20 The auditor has a range of means at their disposal, by which their findings may be reported publicly. The auditor should report using their professional judgement on the most appropriate and effective means of reporting and applying the following principles, reflecting the wider scope of public audit. The auditor should, therefore:

- report on a timely basis, clearly, concisely and objectively without fear or favour. Timely reporting includes producing audit reports in time, insofar as the auditor can do so under auditing standards, to allow local bodies to comply with the requirements placed on them to publish their audited financial statements. It also means ensuring that when matters of concern arise during the course of the audit, the auditor raises them promptly with the body and considers whether the matter needs to be brought to public attention at the appropriate time;
- when reporting in public, use language that readers will understand, reflecting the principle that local audit reporting is for the benefit of the public as well as the body being audited;
- use the most appropriate form of reporting available in the expectation that audited bodies ensure that the report is sufficiently prominent and accessible to people when published;

- set out to whom the report is addressed, the period to which it relates, its date, its purpose and the relevant duty or power under which the auditor is issuing it;
- reflect the wider scope of public audit by covering the range of audit responsibilities under the Code;
- be open and transparent about the scope and nature of the work carried out; and
- if making recommendations, set judgements out clearly, along with the evidence on which those judgements are based, explain the impact they have on the audited body, and the actions the body should take in response.

Appropriate knowledge and skills

- 1.21 In order to undertake audits effectively and report to local bodies and their stakeholders in accordance with these principles, the auditor should ensure that they have the necessary skills and knowledge to discharge their functions effectively and have arrangements in place to ensure that audit teams have sufficient knowledge of the relevant public sector financial reporting, regulatory and legislative frameworks.
- 1.22 The auditor should ensure that audit teams comply with statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information, particularly personal information received or obtained during the course of their audit work.

Chapter Two

Audit of the financial statements

- 2.1 This chapter addresses the auditor's statutory duties in respect of the audit of the financial statements. *Schedule 1: The auditor's statutory responsibilities* summarises the statutory duties of auditors of the different types of principal body covered by the Code.
- 2.2 The auditor of a body that meets the qualifying conditions of a smaller authority should apply procedures as set out in Chapter Six of the Code, unless the body chooses to be treated as a full audit authority in accordance with regulations made under Section 5 of the Act.

Responsibilities of the audited body

- 2.3 The specific responsibilities of different types of audited body regarding the production and reporting of financial statements and other information vary depending on relevant legislation, regulations and any other requirements that may be placed upon them. However, all audited bodies are expected to have effective corporate governance arrangements to deliver their objectives. To this end, the publication of the financial statements is an essential means by which the audited body accounts for its stewardship and use of the public money at its disposal.
- 2.4 The precise form and content of the audited body's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place for that particular type of audited body and any additional guidance issued in support of the accounting and reporting framework.
- 2.5 The audited body may also be required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury's Whole of Government Accounts or other relevant group accounts.

Responsibilities of the auditor

- 2.6 To meet their duties in respect of the audit of the financial statements, the auditor should comply with auditing standards currently in force in the United Kingdom, as may be amended from time to time, having regard to any other guidance issued by a relevant regulatory body, and statutory guidance issued by the NAO on behalf of the Comptroller and Auditor General.

2.7 The auditor should undertake work to support the provision of their audit report to the audited body. In respect of their audit of the financial statements, the auditor's report should include the following components:

Opinion on the audited body's financial statements

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Opinion on other matters

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Opinion on regularity

- where required – whether in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions in the financial statements conform to the authorities which govern them.⁴

2.8 Other information published together with the audited financial statements covers material that the audited body chooses or is required to provide alongside its financial statements. For example, the governance statement, a strategic report, a directors' report or a narrative report or equivalent. In reading the information given with the financial statements, the auditor should take into account their knowledge of the audited body, including that gained through work in relation to the body's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources.

2.9 The auditor will report to the audited body by exception in respect of the governance statement, and other accompanying material as required, in accordance with relevant statutory guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

⁴ Auditors of certain local public bodies (for example, integrated care boards) are required to provide an opinion on regularity as part of their audit of the financial statements when this is required by the relevant framework of authorities.

Auditors' duties in relation to Accounts and Audit Regulations

- 2.10 Where relevant authorities other than local NHS bodies have adopted their accounts in accordance with the requirements of the Accounts and Audit Regulations (as may be amended from time to time), auditors must issue their audit report in time for the relevant authority to publish its accounts by the specified date. This paragraph does not apply where the auditor is considering an objection that may have a material impact on their opinion on the financial statements; where in the auditor's judgement recourse to the Court could be required; or where the auditor is unable to satisfy themselves about the body's arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 2.11 In cases where any of the above conditions apply, the auditor must issue their audit report as soon as practicable after the matters are resolved.
- 2.12 The auditor's report should address any additional reporting requirements set out in applicable auditing standards or as required by Schedule 1 to this Code. This may include issuing enhanced auditor reports under the relevant auditing standard. The NAO, on behalf of the Comptroller and Auditor General, will specify any such reporting requirements in statutory guidance to auditors.
- 2.13 Where the audited body is required to produce schedules or returns to facilitate the preparation of consolidated accounts, the auditor should, having regard to any relevant statutory guidance or group audit instructions prepared by the NAO on behalf of the Comptroller and Auditor General, examine and report on the consistency of the schedules or returns with the body's audited financial statements for the relevant reporting period.
- 2.14 The auditors of bodies that administer pension funds are also required to give a separate opinion on the part of the administering authority's financial statements that relates to the accounts of the pension fund. In doing so, the auditor should have regard to relevant statutory guidance issued by the NAO on behalf of the Comptroller and Auditor General.

Chapter Three

The auditor's work on value-for-money arrangements

- 3.1 This chapter addresses the auditor's statutory duties in respect of the audited body's arrangements to secure value for money through the economic, efficient and effective use of its resources. *Schedule 1: The auditor's statutory responsibilities* summarises the statutory duties of auditors of the different types of principal body addressed by this Code. The auditor of a body that meets the qualifying conditions of a smaller authority should apply procedures as set out in Chapter Six of this Code, unless the body chooses to be treated as a full audit authority in accordance with regulations made under Section 5 of the Act.
- 3.2 For audit years 2023-24 onwards, auditors should comply with paragraphs 3.6 to 3.15 of Chapter Three and the requirements of Chapter Four. For relevant authorities other than local NHS bodies and in relation to audit years prior to 2023-24 that are incomplete at the date on which this Code comes into force, auditors should comply with the requirements set out in Schedules 3 and 4.**

Responsibilities of the audited body

- 3.3 Local public bodies are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.
- 3.4 As part of the material published with its financial statements, the audited body is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement.
- 3.5 In preparing its governance statement, the audited body will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. While this introduces variation in the detail of what should go into the governance statements for different types of audited body, for most local bodies there is a requirement to provide commentary on their arrangements for securing value for money from their use of resources.

Responsibilities of the auditor

3.6 Auditors of the different types of local public body covered by the Code have a consistent statutory responsibility in respect of the audited body's use of resources – to satisfy themselves that the audited body:

...has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.⁵

3.7 In practice, this means that the auditor should, having regard to relevant statutory guidance issued by the NAO on behalf of the Comptroller and Auditor General, undertake sufficient work to be able to satisfy themselves as to whether, in the auditor's view, the audited body has put arrangements in place that support the achievement of value for money. In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period. However, should evidence of poor value for money come to the auditor's attention during the course of the audit, the auditor should consider the implications of this for their work.

3.8 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.

3.9 The auditor should take into account their knowledge of the relevant sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, are relevant to the auditor's work on value-for-money arrangements. An understanding of the sector includes the relevant regulatory framework in which the audited body operates.

3.10 The auditor's work on value-for-money arrangements should be informed by:

- the audited body's governance statement and any additional reporting by the body on the arrangements it has in place to manage risks to the achievement of value for money through the economic, efficient and effective use of its resources;
- evidence that the audited body's arrangements were in place during the reporting period;
- evidence obtained from the auditor's other work – including previous work on value-for-money arrangements, work completed as part of the audit of the financial statements and the audited body's response to this work;

5 Section 20(1)(c) and Section 21(1)(c) Local Audit and Accountability Act 2014 and Schedule 10(1)(d) National Health Service Act 2006.

- the work of inspectorates and other bodies – where the scope and results are relevant to the auditor’s value-for-money responsibilities. The auditor is not required to quality-assure or re-perform the work of others and may use such work to the extent that, in their judgement, it is appropriate to do so; and
- any other evidence source that the auditor regards as necessary to facilitate the performance of their statutory duties.

3.11 Determining how much work to do on arrangements to secure value for money is a matter of auditor judgement. The auditor should clearly document the work they have undertaken and report each year in accordance with Chapter Four of this Code having regard to the following specified reporting criteria:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

3.12 The auditor should keep their risk assessment under continuous review. Where appropriate, the auditor should update their work to reflect emerging risks or findings. The auditor should document any changes to their planned work and ensure these are communicated with the audited body.

3.13 In reviewing the audited body’s value-for-money arrangements, it is not part of the auditor’s function to question the merits of the audited body’s policy decisions. However, the auditor may examine the arrangements by which policy decisions are reached and implemented. In making recommendations, the auditor should avoid any perception that they have any role in the decision-making arrangements of the audited body.

3.14 The auditor’s work should be designed to provide the auditor with sufficient assurance to enable them to report to the audited body in accordance with Chapter Four of this Code and with the specified reporting criteria on the arrangements the body has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

3.15 Where the auditor identifies significant weaknesses in arrangements as part of their work on arrangements to secure value for money, they should make recommendations setting out:

- their judgement on the nature of the weakness they have identified;
- the evidence on which their view is based;
- the impact on the local body; and
- the action the body needs to take to address the weakness.

Chapter Four

Reporting the results of the auditor's work

- 4.1 This chapter addresses the auditor's statutory duties for reporting the results of their work as summarised within *Schedule 1: The auditor's statutory responsibilities*. The auditor of a body that meets the qualifying conditions of a smaller authority should apply procedures as set out in Chapter Six of the Code, unless the body chooses to be treated as a full audit authority in accordance with regulations made under Section 5 of the Act.
- 4.2 The auditor should report the results of their work using a range of outputs at the appropriate point in the audit process as set out in this chapter.
- 4.3 **For audit years 2023-24 onwards, auditors should comply with paragraphs 4.4 to 4.11 of Chapter Four. For relevant authorities other than local NHS bodies and in relation to audit years prior to 2023-24 that are incomplete at the date on which this Code comes into force, auditors should comply with the requirements set out in Schedule 4.**

Planning the audit

- 4.4 The audit planning report sets out how the auditor intends to carry out their duties in respect of the accounts in accordance with auditing standards. In addition to planned work on the audit of the financial statements, 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 value for money through the economic, efficient and effective use of its resources. The responsibility for establishing the overall audit strategy and the audit plan rests solely with the auditor. The auditor should discuss their risk assessment and planned approach as set out in the audit planning report with management and with those charged with governance.

Completion of audit fieldwork

- 4.5 In support of the completion of their work, and at least annually, the auditor should report to those charged with governance. Reports to those charged with governance should comply with auditing standards and may include any matters the auditor wishes to bring to the body's attention.

Conclusion of the audit

4.6 In order to promote timely and impactful reporting that supports local bodies to improve and provides appropriate assurance to wider stakeholders, the auditor should report in a way that is consistent with the principles of public reporting set out in Chapter One. To achieve this, the Code requires that the auditor issues the following reports when they have concluded their audit:

- Audit report on the financial statements – the audit report should cover the results of the auditor’s work on the financial statements as set out in Chapter Two of the Code. Where the auditor has issued referrals to the Secretary of State as set out in Schedule 2 (Reporting of additional matters by exception), these should also be included in the auditor’s report on the financial statements. The partner or director who is the relevant engagement lead should sign the audit report with his or her name as well as the name of the firm of auditors. Where the auditor is not satisfied in respect of arrangements to secure value for money, they should refer to this by exception.
- Audit completion certificate – the auditor should certify the completion of the audit. The effect of the certificate is to close the audit. This marks the point when the auditor’s responsibilities in respect of the audit of the period covered by the certificate have been discharged. There may be occasions when the auditor is able to issue the audit report on the financial statements but cannot certify completion of the audit because they are considering an objection made under Section 27 of the Local Audit and Accountability Act 2014. In such circumstances, the auditor should consider whether to issue their audit report ahead of certifying closure of the audit. Auditors may identify significant weaknesses in arrangements after the auditor’s annual report has been issued (for example as a result of completing work on the opinion or in the case of an objection under section 27 of the 2014 Act). Where auditors identify significant weaknesses relevant to the year under consideration after issuing the auditor’s annual report, the weakness should be reflected in either the audit report or the certificate as relevant.

Auditor’s annual report

- Auditor’s annual report – the auditor’s annual report should provide an annual summary of the position of the audit at the time of issue.⁶ A core element of the auditor’s annual report will be the commentary in accordance with the specified reporting criteria set out in Chapter Three (and as supplemented in statutory guidance issued by the NAO). The commentary should be clear, readily understandable and highlight any issues that the auditor wishes to draw to the attention of the body or the wider public. This should include details of any recommendations issued to the body from the audit and follow-up of recommendations related to previous years, along with the auditor’s view as to whether they have been implemented satisfactorily.

⁶ The auditor’s annual report constitutes an audit letter for the purposes of local bodies complying with the Accounts and Audit Regulations.

4.7 The auditor should aim to issue their auditor's annual report for local NHS bodies no later than one month after the date on which they have issued their audit report. Where the auditor is unable to issue their audit report in accordance with the requirements set out in the NHS timetable, the auditor should consider whether it is in the public interest to issue their auditor's annual report to reflect the work completed to date.

4.8 For relevant authorities other than local NHS bodies, auditors should issue their draft auditor's annual report to those charged with governance by 30th November each year. This includes where the auditor has not yet issued the auditor's report on the financial statements or is considering an objection. The auditor should reflect the work completed to date since the issue of the last auditor's annual report. If during the completion of opinion work, or consideration of the objection, any significant weaknesses are identified in arrangements to secure value for money, these should be reported to the body promptly and reflected in the audit report on the financial statements or in the certificate as appropriate.

4.9 The auditor's annual report should also include:⁷

- confirmation of the status of the work on the opinion on the financial statements, including the type of opinion given where it has been issued; and
- (by exception), reference to any reporting by the auditor on a range of additional matters as appropriate. *Schedule 2: Reporting of additional matters by exception* sets out these additional matters and the types of audited body to which each applies.

Other reporting

4.10 Statement on consolidation schedules – the auditor should provide a statement on whether any schedules or returns the audited body is required to produce for the purposes of preparing consolidated accounts are consistent with the audited body's financial statements for the relevant reporting period. The auditor's statement should refer to any modification of the auditor's opinion on the financial statements.

⁷ Schedule 1 sets out the different reporting requirements that apply to different types of audited body.

Any stage during the audit

4.11 The auditor should consider whether any matters coming to their attention require them to progress the actions and outputs identified below before the end of the audit:

- Communication on specific elements of the auditor's work – the auditor should maintain regular communication with the audited body to ensure that emerging findings are raised on a timely basis in the form, and at the level within the audited body, that the auditor judges appropriate.
- Reports in the public interest – 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:
 - When preparing and issuing reports in the public interest, the auditor should tailor their approach to the urgency and significance of their concerns. The auditor should make a report during the audit if they consider the matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.
 - If the auditor issues a report in the public interest, this should be referred to in the next auditor's annual report.
- Written recommendations – the auditor should consider whether to use the powers Schedule 7 of the Act provides to make written recommendations to the audited body which need to be considered by the body and responded to publicly. Where the auditor considers it appropriate to make such recommendations, these can be made during or at the end of the audit and can be included, where relevant, within other written outputs from the audit or they may be the subject of a specific report to the audited body. Where the auditor makes a recommendation under Schedule 7, they should clearly identify the recommendation as such so as to distinguish it from other, more general, recommendations for improvement that may arise during the audit (or as a result of an objection). The power to make such recommendations under the Act does not apply to the auditors of NHS foundation trusts.
- Referral of matters arising – the auditor of an NHS body has a duty to consider whether there are any issues arising during their work that indicate possible or actual unlawful expenditure or action leading to a possible or actual loss or deficiency that should be referred to the Secretary of State, and/or relevant NHS regulatory body as appropriate.⁸ The auditor should still consider the need for a report in the public interest in respect of matters so referred.

Chapter Five

The auditor's additional powers and duties

- 5.1 This chapter addresses the auditor's use of additional powers and duties, as summarised below. These powers and duties apply to all types of bodies covered by the Code, except for health service bodies.

Power or duty	Legislation
To give local government electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts.	Sections 26 and 27 Local Audit and Accountability Act 2014.
To apply to the court for a declaration that an item of account is contrary to law.	Section 28 Local Audit and Accountability Act 2014.
To consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review.	Sections 29 and 31, Schedule 8 Local Audit and Accountability Act 2014.
Matters reported in the public interest.	Schedule 7 Local Audit and Accountability Act 2014.
Written recommendations made to the audited body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014.	Schedule 7 Local Audit and Accountability Act 2014.

- 5.2 In exercising any of the above powers and duties, including when performing a smaller authority assurance engagement as specified at Chapter Six of the Code, the auditor should tailor their approach to the particular circumstances of the matters under consideration, having particular regard to the principle of proportionality set out in Chapter One.
- 5.3 Where any representations are made to the auditor or information is provided that is relevant to the audit or smaller authority assurance engagement, or relevant matters otherwise come to their attention, the auditor should consider whether the matter needs investigation and action under these additional powers and duties or whether it can be considered more effectively within planned work programmes and reporting arrangements under the auditor's other audit or smaller authority assurance engagement responsibilities.

5.4 In considering whether to exercise any of their additional powers and duties, and in determining the time and resource to be spent on dealing with matters that come to their attention, the auditor should consider the relevant requirements of the Act and:

- the significance of the subject matter;
- whether there is wider public interest in the issues raised and/or whether it would be in the public interest for the auditor to comment publicly on an issue;
- whether the substance of the matter has been considered and/or reported upon previously by the body's auditor;
- whether the substance of the matter falls within the scope of work conducted by an inspectorate or other body;
- the costs of dealing with the matter when set against the sums involved and the size of the audited body, bearing in mind that these costs are borne by the taxpayer and so should be proportionate and in the public interest; and
- in the case of objections, the rights of both those subject to objection and of the objector.

5.5 Where the auditor issues a qualified or disclaimed opinion on the financial statements that is not as a result of any statutory publication requirements for audited financial statements, they should consider whether to issue a statutory recommendation or public interest report to draw attention to the significance of the issue(s).

The exercise of public rights and considering objections

5.6 Under Section 27 of the Act, local electors have the right to object to a local authority's draft accounts during a fixed 30-working day period each year. Where a local auditor receives an objection, they should:

- determine whether the objection is eligible;
- decide whether or not to consider the objection; and
- where they decide to consider the objection, look into the matter being raised and decide whether to exercise any of their additional powers.

5.7 When considering objections, the auditor should do so in a timely manner, keeping the objector and the authority updated as to their progress. Specifically:

- when considering eligibility, the auditor should use best endeavours to determine whether the objection is eligible within one week of receipt;
- when exercising their discretion whether or not to consider the objection, the auditor should use best endeavours to reach their decision and to inform the objector and the authority of their decision within one month of determining eligibility; and
- where the auditor decides to consider the objection, use best endeavours to complete their work and inform the objector and the authority of their decision within six months of their decision to accept the objection for consideration. Where the auditor is not able to decide the objection within six months, they should inform the objector and the authority and provide a further update on progress every three months until the objection is decided.

Chapter Six

Smaller authority assurance engagements

6.1 This chapter addresses the auditor's statutory duties in respect of the audit of the accounts of smaller authorities as set out in the Act and in relevant regulations made by the Secretary of State. Under the Act and supporting regulations, an audit means carrying out the assurance engagement functions of a local auditor in relation to the accounts of the smaller authority:

- in compliance with the relevant parts of this Code; and
- in accordance with any procedures specified in statutory guidance issued by the NAO on behalf of the Comptroller and Auditor General.

6.2 A smaller authority is one whose annual income or annual expenditure is below a financial threshold as prescribed in relevant regulations. The NAO, on behalf of the Comptroller and Auditor General, may provide details of relevant thresholds in statutory guidance to auditors.

Responsibilities of the smaller authority

6.3 A smaller authority is responsible for putting in place arrangements to ensure the proper conduct of their financial affairs and to monitor the adequacy and effectiveness of those arrangements in practice. A smaller authority should maintain proper accounting records and control systems and operate an adequate system of internal audit of those accounting records and control systems.

6.4 A smaller authority should prepare and publish financial statements and related information within an annual return in accordance with proper practices specified by the Secretary of State.

Responsibilities of the auditor (smaller authority assurance engagements)

6.5 Unless the smaller authority is exempt under regulations, or chooses to be treated as a full audit authority in accordance with regulations, the auditor of a smaller authority should undertake a smaller authority assurance engagement. The auditor should meet their responsibility under this engagement by performing specified procedures as set out in statutory guidance to auditors provided by the NAO on behalf of the Comptroller and Auditor General.

Responsibilities of the auditor (additional powers and duties)

6.6 When conducting a smaller authority assurance engagement, or performing work as a consequence of questions or objections from a local elector, the auditor should follow the requirements of Chapter Five – The auditor’s additional powers and duties together with the following elements of Chapter Four of the Code:

- communication on specific elements of the auditor’s work;
- reports in the public interest; and
- written recommendations.

6.7 When considering the exercise of additional powers in relation to matters at smaller authorities, the auditor should have regard in particular to the principle of proportionality in Chapter One, unless they have significant concerns about the way the smaller authority is being managed or led, or they judge that the exercise of additional powers would be in the public interest.

Schedule 3 - Auditors' work on value-for-money arrangements relating to incomplete audits for bodies other than local NHS bodies

The auditor's work on value-for-money arrangements

3.1 This **schedule** addresses the auditor's statutory duties in respect of the audited body's arrangements to secure value for money through the economic, efficient and effective use of its resources. *Schedule 1: The auditor's statutory responsibilities* summarises the statutory duties of auditors of the different types of principal body addressed by this Code. The auditor of a body that meets the qualifying conditions of a smaller authority should apply procedures as set out in Chapter Six of this Code, unless the body chooses to be treated as a full audit authority in accordance with regulations made under Section 5 of the Act.

3.2 This schedule applies to incomplete audit years prior to 2023-24 that are incomplete at the date on which this Code comes into force.

Responsibilities of the audited body

3.3 Local public bodies are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

3.4 As part of the material published with its financial statements, the audited body is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement.

3.5 In preparing its governance statement, the audited body will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. While this introduces variation in the detail of what should go into the governance statements for different types of audited body, for most local bodies there is a requirement to provide commentary on their arrangements for securing value for money from their use of resources.

Responsibilities of the auditor

3.6 Auditors of the different types of local public body covered by the Code have a consistent statutory responsibility in respect of the audited body's use of resources – to satisfy themselves that the audited body:

...has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.⁹

3.7 In practice, this means that the auditor should, having regard to relevant statutory guidance issued by the NAO on behalf of the Comptroller and Auditor General, undertake sufficient work to be able to satisfy themselves as to whether, in the auditor's view, the audited body has put arrangements in place that support the achievement of value for money. In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period. However, should evidence of poor value for money come to the auditor's attention during the course of the audit, the auditor should consider the implications of this for their work.

3.8 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.

3.9 The auditor should take into account their knowledge of the relevant sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, are relevant to the auditor's work on value-for-money arrangements. An understanding of the sector includes the relevant regulatory framework in which the audited body operates.

3.10 The auditor's work on value-for-money arrangements should be informed by:

- the audited body's governance statement and any additional reporting by the body on the arrangements it has in place to manage risks to the achievement of value for money through the economic, efficient and effective use of its resources;
- evidence that the audited body's arrangements were in place during the reporting period;
- evidence obtained from the auditor's other work – including previous work on value-for-money arrangements, work completed as part of the audit of the financial statements and the audited body's response to this work;

- the work of inspectorates and other bodies – where the scope and results are relevant to the auditor’s value-for-money responsibilities. The auditor is not required to quality-assure or re-perform the work of others and may use such work to the extent that, in their judgement, it is appropriate to do so; and
- any other evidence source that the auditor regards as necessary to facilitate the performance of their statutory duties.

3.10 In relation to incomplete audits from 2015-16 up to and including 2019-20, auditors should have considered arrangements to secure value for money in accordance with the scope of the 2015 Code of Audit Practice and supporting auditor guidance. For incomplete audits from 2020-21 up to and including 2022-23, auditors will discharge their responsibility under the Code in respect of arrangements to secure value for money by considering the following:

- **Financial sustainability - how the body plans and manages its resources to ensure it can continue to deliver its services:**
 - how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
 - how the body plans to bridge its funding gaps and identifies achievable savings;
 - how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities; and
 - how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.
- **Governance - how the body ensures that it makes informed decisions and properly manages its risks:**
 - how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
 - how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships; and
 - how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

- **Other matters that have come to the auditor's attention.**

- In some cases, in order to be satisfied in respect of bodies' arrangements to secure value for money, auditors may identify a significant risk relating to arrangements falling outside of the criteria specified above, for example evidence of poor value for money as illustrated in paragraph 3.7. In such cases, the auditor should document their judgement as to whether additional work is required in order to conclude whether a significant weakness exists. However, where no significant risks have been identified that fall outside the scope of this schedule, the auditor is not required to document why they have not considered it necessary to undertake additional work.

3.11 Determining how much work to do in order to gain sufficient assurance to be able to discharge their duties in relation to arrangements to secure value for money is a matter of auditor judgement. The auditor should clearly document the work they have undertaken and report in accordance with Schedule 4 of this Code. There is no requirement for auditors to document why they have not undertaken work on areas outside of those specified above.

3.12 Where auditors have begun or already undertaken work that no longer falls under the scope of this schedule, they may still report on it in accordance with Schedule 4.

3.13 The auditor should keep their risk assessment under continuous review. Where appropriate, the auditor should update their work to reflect emerging risks or findings. The auditor should document any changes to their planned work and ensure these are communicated with the audited body.

3.14 In reviewing the audited body's value-for-money arrangements, it is not part of the auditor's function to question the merits of the audited body's policy decisions. However, the auditor may examine the arrangements by which policy decisions are reached and implemented. In making recommendations, the auditor should avoid any perception that they have any role in the decision-making arrangements of the audited body.

3.15 The auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report to the audited body in accordance with Schedule 4 of this Code and with the specified reporting criteria on the arrangements the body has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

3.16 Where the auditor identifies significant weaknesses in arrangements as part of their work on arrangements to secure value for money, they should make recommendations where the auditor judges it appropriate to do so setting out:

- their judgement on the nature of the weakness they have identified;
- the evidence on which their view is based;
- the impact on the local body; and
- the action the body needs to take to address the weakness.

3.17 In relation to incomplete audits up to and including 2022-23, there is no expectation for auditors to make recommendations where they are satisfied the significant weakness has already been addressed.

Schedule 4 - Auditor reporting relating to incomplete audits for bodies other than local NHS bodies

Reporting the results of the auditor's work

- 4.1 This **schedule** addresses the auditor's statutory duties for reporting the results of their work as summarised within *Schedule 1: The auditor's statutory responsibilities*. The auditor of a body that meets the qualifying conditions of a smaller authority should apply procedures as set out in Chapter Six of the Code, unless the body chooses to be treated as a full audit authority in accordance with regulations made under Section 5 of the Act.
- 4.2 The auditor should report the results of their work using a range of outputs at the appropriate point in the audit process as set out in this chapter.
- 4.3 **This schedule applies to incomplete audit years prior to 2023-24 that are incomplete at the date on which this Code comes into force.**

Planning the audit

- 4.4 The audit planning report sets out how the auditor intends to carry out their duties in respect of the accounts in accordance with auditing standards. In addition to planned work on the audit of the financial statements, 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 value for money through the economic, efficient and effective use of its resources. The responsibility for establishing the overall audit strategy and the audit plan rests solely with the auditor. The auditor should discuss their risk assessment and planned approach as set out in the audit planning report with management and with those charged with governance.

Completion of audit fieldwork

- 4.5 In support of the completion of their work, and at least annually, the auditor should report to those charged with governance. Reports to those charged with governance should comply with auditing standards and may include any matters the auditor wishes to bring to the body's attention.

Conclusion of the audit

- 4.6 In order to promote timely and impactful reporting that supports local bodies to improve and provides appropriate assurance to wider stakeholders, the auditor should report in a way that is consistent with the principles of public reporting set out in Chapter One. To achieve this, the Code requires that the auditor issues the following reports when they have concluded their audit:
- Audit report on the financial statements – the audit report should cover the results of the auditor’s work on the financial statements as set out in Chapter Two of the Code. The partner or director who is the relevant engagement lead should sign the audit report with his or her name as well as the name of the firm of auditors. Where the auditor is not satisfied in respect of arrangements to secure value for money, they should refer to this by exception having regard to any associated statutory guidance issued by the C&AG in support of this Schedule.
 - Audit completion certificate – the auditor should certify the completion of the audit. The effect of the certificate is to close the audit. This marks the point when the auditor’s responsibilities in respect of the audit of the period covered by the certificate have been discharged. There may be occasions when the auditor is able to issue the audit report on the financial statements but cannot certify completion of the audit because they are considering an objection made under Section 27 of the Local Audit and Accountability Act 2014. In such circumstances, the auditor should consider whether to issue their audit report ahead of certifying closure of the audit. Where auditors identify significant weaknesses relevant to the year under consideration after issuing the auditor’s annual report, the weakness should be reflected in either the audit report or the certificate as relevant.

Auditor’s annual report

- Auditor’s annual report – the auditor’s annual report should provide a summary of the position of the audit at the time of issue.¹⁰ A core element of the auditor’s annual report will be the commentary in accordance with the specified reporting criteria set out in Schedule 3 (and as supplemented in statutory guidance issued by the NAO). The commentary should be clear, readily understandable and highlight any issues that the auditor wishes to draw to the attention of the body or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor’s view as to whether they have been implemented satisfactorily. For audits from 2015-16 to 2019-20, a commentary on arrangements is not required; auditors need only report whether significant weaknesses were identified.

¹⁰ The auditor’s annual report constitutes an audit letter for the purposes of local bodies complying with the Accounts and Audit Regulations.

- 4.7 For incomplete audits up to and including 2022-23, the auditor may issue a combined commentary as part of a single auditor's annual report. The commentary should focus on any significant weaknesses identified but auditors may include additional information for context where they consider it to be useful.
- 4.8 Where the auditor has identified significant weaknesses that have not been addressed at the time of issuing their auditor's annual report, they should make a recommendation in accordance with paragraph 3.16 of Schedule 3.
- 4.9 Once this Code comes into force, auditors should aim to issue their auditor's annual report containing their commentary on arrangements as soon as they have completed their work on VFM arrangements.

4.10. The auditor's annual report should also include:¹¹

- confirmation of the status of work on the opinion on the financial statements, including the type of opinion given where it has been issued; and
- (by exception), reference to any reporting by the auditor on a range of additional matters as appropriate. *Schedule 2: Reporting of additional matters by exception* sets out these additional matters and the types of audited body to which each applies.

Other reporting

- 4.11 Statement on consolidation schedules – the auditor should provide a statement on whether any schedules or returns the audited body is required to produce for the purposes of preparing consolidated accounts are consistent with the audited body's financial statements for the relevant reporting period. The auditor's statement should refer to any modification of the auditor's opinion on the financial statements.

Any stage during the audit

- 4.12 The auditor should consider whether any matters coming to their attention require them to progress the actions and outputs identified below before the end of the audit:
- Communication on specific elements of the auditor's work – the auditor should maintain regular communication with the audited body to ensure that emerging findings are raised on a timely basis in the form, and at the level within the audited body, that the auditor judges appropriate.

11 Schedule 1 sets out the different reporting requirements that apply to different types of audited body.

- Reports in the public interest – 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:
 - When preparing and issuing reports in the public interest, the auditor should tailor their approach to the urgency and significance of their concerns. The auditor should make a report during the audit if they consider the matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.
 - If the auditor issues a report in the public interest, this should be referred to in the auditor’s annual report.
- Written recommendations – the auditor should consider whether to use the powers Schedule 7 of the Act provides to make written recommendations to the audited body which need to be considered by the body and responded to publicly. Where the auditor considers it appropriate to make such recommendations, these can be made during or at the end of the audit and can be included, where relevant, within other written outputs from the audit or they may be the subject of a specific report to the audited body. Where the auditor makes a recommendation under Schedule 7, they should clearly identify the recommendation as such so as to distinguish it from other, more general, recommendations for improvement that may arise during the audit (or as a result of an objection).

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