



# Auditor Guidance Note 1 (AGN 01)

## General Guidance Supporting Local Audit

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### About Auditor Guidance Notes

Auditor Guidance Notes (AGNs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act).

AGNs set out guidance to which local auditors must have regard under Section 20(6) of the Act. The guidance in AGNs supports auditors in meeting their requirements under the Act and the *Code of Audit Practice* published by the NAO on behalf of the C&AG.

The NAO also issues Weekly Auditor Communications (WACs) to local auditors to bring to their attention relevant information to support them in carrying out audit work. The firms that are local auditors under the Act may use WACs to update their own internal communications and reference tools.

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

The NAO prepares Auditor Guidance Notes (AGNs) solely to provide guidance to local auditors in interpreting the Code of Audit Practice made under the Local Audit and Accountability Act 2014. The contents of AGNs cannot be reproduced, copied or re-published by parties other than local auditors without permission from the NAO.

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

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

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

AGN 01 is relevant to all auditors of local bodies including auditors of smaller authorities and foundation trusts (unless otherwise stated).



## Introduction

Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act) gives the C&AG the power to issue guidance to local auditors who must have regard to any such guidance under Section 20(6) of the Act. The NAO prepares and issues guidance for local auditors on behalf of the C&AG in order to:

- help auditors to exercise their statutory functions;
- explain and supplement the provisions of the *Code of Audit Practice* (the Code) issued by the C&AG; and
- promote consistency of approach between local auditors.

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

Throughout AGN 01, the terms local auditor and auditor cover the firm and engagement leads nominated by a firm to discharge its statutory obligations under the Act and the Code. Auditors and all members of audit teams must comply with the Act and the Code and have regard to guidance issued by the NAO on behalf of the C&AG. Statutory and contractual requirements are not duplicated in this AGN.



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## Guidance Provided by the NAO

### What is the issue?

1. Auditors are required to have regard to statutory guidance issued by the NAO on behalf of the C&AG. The term 'have regard to' means that auditors must take into account the guidance issued by the NAO on behalf of the C&AG, and, if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance.
2. The C&AG's statutory guidance is issued in the form of Auditor Guidance Notes (AGNs). Each AGN is numbered sequentially, and also dated to indicate when it was issued, and will be revised and updated as appropriate. The following AGNs have been issued and published on the NAO's website:

***AGN01: General Guidance Supporting Local Audit***

***AGN02: Specified Procedures for Assurance Engagements at Smaller Authorities***

***AGN03: Auditors' Work on Value for Money Arrangements***

***AGN04: Auditors' Additional Powers and Duties***

***AGN05: NHS Audit Planning***

***AGN06: Local Government Audit Planning***

***AGN07: Auditor Reporting***

3. Supplementary Guidance Notes (SGNs) are prepared and published by the NAO on behalf of the C&AG under Schedule 6 paragraph 9 of the Act. SGNs are prepared and published when the C&AG wishes to address a particular issue, including setting out what the C&AG considers to be best professional practice in relation to that issue, having regard to the principles of proportionality and efficiency embodied by Chapter One of the Code of Audit Practice. 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.
4. Local Audit Reset and Recovery Implementation Guidance notes (LARRIGs) are prepared and published by NAO on behalf of the C&AG under Schedule 6 paragraph 9 of the Act. LARRIGs are prepared and published with the endorsement of the Financial Reporting Council and are intended to support the



reset and recovery of local audit in England. The guidance in LARRIGs supports auditors in meeting their requirements under the Act and the Code of Audit Practice. LARRIGs are numbered sequentially and published on the NAO's website. LARRIGs are intended to be in place for a limited period of time and will be withdrawn once no longer necessary.

### **What should auditors do?**

5. Auditors should familiarise themselves with the guidance that the NAO issues. Auditors need to ensure that they identify and have regard to guidance relevant to their audit work.

## Supporting Information for Auditors

### What is the issue?

6. The NAO recognises that it can be helpful to issue to auditors information and other material in support of the C&AG's statutory guidance set out in AGNs. For example, *AGN07: Auditor Reporting* is supported by web-based information that auditors may wish to refer to when carrying out their work. However, auditors are not required to 'have regard to' supporting information because it does not have the status of statutory guidance.
7. The NAO also recognises the economies of scale that arise from providing specified information to auditors centrally through contracts with specialist legal, actuarial and valuation experts to support its guidance to auditors.
8. The NAO provides:

### ***Weekly Auditor Communications (WACs)***

9. The NAO issues Weekly Auditor Communications (WAC), and less frequently special auditor communications (SACs), to each firm.
10. The WAC is for information. However, the WAC may draw attention to guidance that has been issued by the NAO on behalf of the C&AG in AGNs to which, as noted above, auditors must have regard.
11. In order to highlight any items that may need urgent attention the WAC is structured as follows:

#### *Items for urgent attention*

- cross sectoral issues;
- for auditors of local government bodies; and
- for auditors of NHS bodies, including foundation trusts (FTs).

#### *Other items for information*

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

### ***Responses to technical and legal queries***

12. The NAO receives and responds to regime-wide technical and legal queries from the firms. However, firms should have the necessary professional and technical expertise to perform their functions, and so the following protocol sets out the respective responsibilities of the firms and the NAO for dealing with technical and legal queries.

### ***Protocol for dealing with technical and legal queries***

13. This protocol aims to use the professional resources of both the firms and the NAO cost-effectively, and covers all auditors' technical and legal queries relating to work under the Code.

### ***Responsibilities of the auditor***

14. Where an auditor has a query, they should try to resolve it by working through a staged process:

- Consult the relevant standards and guidance, such as Auditor Guidance Notes, the Code, NHS manuals for accounts, or relevant statutory instruments. Other useful sources include: guidance published by the Financial Reporting Council on the application of UK accounting and auditing standards, and the NAO's VFM arrangements guidance (see AGN03) and guidance on auditors' additional powers and duties (AGN04).
- Seek to resolve the issue with advice from their firm's support service.
- The firm's support service should refer unresolved issues to the NAO's Local Audit Code and Guidance (LACG) team by e-mailing [LACG.queries@nao.org.uk](mailto:LACG.queries@nao.org.uk)
- Specify the query as closely as possible, stating:
  - the information sought;
  - any background information;
  - the steps already taken; and
  - a deadline for a response.

15. Sending queries to the [LACG.queries@nao.org.uk](mailto:LACG.queries@nao.org.uk) email account ensures: that all parties have a clear record of the query, that the NAO team can refer it to the

most appropriate expert to answer it and that it is logged in the enquiry database for analysis and reference.

### ***Responsibilities of the LACG team***

16. On receipt of a technical or legal query, the NAO's LACG team, or its legal adviser, will respond within three working days, or within ten working days where the team needs to undertake further research or contact third parties to provide a substantive reply.
17. In the case of legal queries, if the LACG team and its legal adviser believe that the query requires substantial support to the auditor – for example, direct assistance and advice on the audit or, in effect, working as a member of the audit team – the LACG team will notify the auditor that they may wish to seek more substantial assistance direct from their own legal adviser.

### **What should auditors do?**

18. Auditors should maintain arrangements to ensure that audit teams are familiar with the protocol covering technical and legal queries to [LACG.queries@nao.org.uk](mailto:LACG.queries@nao.org.uk).

## **Engagement with the NAO and Sharing Information**

### **What is the issue?**

19. To support the provision of guidance the NAO engages with local auditors. To help identify emerging issues and to support consistency between auditors it is important that auditors share relevant information with the NAO and each other. However, auditors also need to comply with relevant legal and professional requirements relating to the sharing of information with the NAO and each other.
20. The NAO chairs a Local Auditors Advisory Group (LAAG). This group includes senior representatives from the firms that carry out local audit work and is supported by technical networks covering:
  - NHS audits;
  - local government audits;
  - value for money arrangements work; and
  - smaller authorities' assurance work.



21. LAAG is a more strategic group, which also provides advice to the NAO in support of its responsibility for the Code, whereas the technical networks are generally convened by conference telephone call and can respond more quickly to emerging issues.
22. To inform the development of relevant and timely guidance, and to support the C&AG's statutory functions in relation to the Code, auditors are strongly encouraged to bring to the attention of the NAO information on emerging issues.

### **What should auditors do?**

23. Auditors should understand how their firm engages with the NAO's LAAG and technical networks and share information, as appropriate, with their firm's representatives on these groups.
24. Using their firms' internal arrangements for raising issues and liaising with the NAO, auditors should also bring to the attention of the NAO relevant information on emerging issues by emailing the LACG team at [LACG@nao.org.uk](mailto:LACG@nao.org.uk). In doing so, auditors will need to comply with relevant confidentiality requirements, for example by not naming specific bodies or individuals, and only bring to the attention of the NAO sufficient information to understand the nature of the issue to help inform the development and provision of relevant and timely guidance to auditors.

## **Co-operation and Using the Work of Other Local Auditors**

### **What is the issue?**

25. Local bodies commission and deliver services in a range of partnerships and other forms of joint working, which requires auditors, in meeting their statutory duties, to consider how best to obtain assurance over such arrangements. The Code sets out principles that underpin co-ordination and integration. The NAO will keep under review this section of the AGN to consider whether it would be helpful to provide any further guidance.

### What should auditors do?

26. Auditors should consider how they can best co-operate and use the work of other external auditors, inspectorates and other bodies in support of their responsibilities.
27. Auditors should also bring to the attention of the NAO and other auditors information that will support the functions of the NAO and auditors under the Act, while also complying with relevant legal and professional requirements relating to disclosure of information.

## Whistle-blowing

### What is the issue?

28. Individuals may seek to bring to the attention of auditors information which they assert is a protected disclosure under the Public Interest Disclosure Act (PIDA). It is important that such contacts and disclosures are handled by auditors appropriately.

### What should auditors do?

29. Auditors need to be aware that they are prescribed persons under PIDA. Auditors will need to follow their firm's procedures for receiving and considering disclosures under PIDA.
30. Auditors should be aware that Public Sector Audit Appointments Ltd (PSAA) and the C&AG are also prescribed persons under PIDA. It is, therefore, possible that PSAA and/or the C&AG may receive disclosures under PIDA which PSAA or the NAO, on behalf of the C&AG, consider need to be brought to the attention of the auditor because they consider that the disclosure may be relevant to the duties and powers of the auditor. In such cases PSAA or the NAO will bring the relevant information to the attention of the appropriate engagement lead or manager in the firm responsible for the audit of the body to which the information relates.
31. If auditors receive information that they consider is relevant to the C&AG as a prescribed person, they should read the NAO's guidance on such disclosures (<http://www.nao.org.uk/contact-us/whistleblowing-disclosures/>) which includes details of how to contact us.

## Integrity, Objectivity and Independence

### What is the issue?

32. Auditors of local public bodies have statutory responsibilities which they exercise as public office-holders. Therefore, in meeting their responsibilities auditors should be mindful of the principles of public life<sup>1</sup> that apply to audited bodies in the public sector.
33. The public expects to have confidence in those who audit, on its behalf, public bodies spending taxpayers' money. Regardless of how local auditors are appointed there is a clear expectation, in professional requirements, that they carry out their work with **integrity, objectivity and independence**.
34. Auditors are appointed under various arrangements and in each case must comply with the Act, the Code, guidance issued by the C&AG and contractual obligations including relevant terms of appointment. A brief summary of auditor appointment arrangements is appended to this AGN, for information only, and illustrates how contractual terms of appointment interrelate with the statutory requirements and guidance.

### What should auditors do?

35. Auditors must carry out their work with integrity, objectivity and independence at all times and must not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest.
36. Auditors should familiarise themselves with, and comply with, all relevant requirements designed to ensure the integrity, objectivity and independence of the audit. In particular, auditors of all local public bodies subject to the Code should comply with the [Financial Reporting Council's \(FRC's\) Revised Ethical Standard \(December 2024\)](#), referred to in this AGN as the 'FRC Ethical Standard'.
37. In addition, auditors should have regard to the guidance in this AGN and its **Annex** which supplements and explains the provisions in the Code relating to safeguarding integrity, objectivity and independence. Auditors should also familiarise themselves with the requirements of those charged with oversight of the auditor's independence<sup>2</sup> and comply with relevant terms of appointment.

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

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

38. The FRC Ethical Standard recognises that in the public sector the scope of the audit is wider than the entity’s financial statements. Therefore, for the purposes of applying ethical requirements, local audit comprises all the work that the auditor carries out under the Act and the Code.
39. The FRC Ethical Standard includes requirements that are applicable to ‘public interest entities’ and ‘other entities of public interest’<sup>3</sup>. Local public bodies that are audited under the Act are generally not ‘public interest entities’ or ‘other entities of public interest’. However, where a local public body meets either of these definitions, auditors should apply the relevant requirements of the 2024 FRC Ethical Standard.
40. It is important to maintain confidence in the arrangements for safeguarding integrity, objectivity and independence in the audits of all local public bodies. In respect of those local bodies that are not defined as ‘public interest entities’ or ‘other entities of public interest’ the **Annex** to this AGN sets out supplementary guidance on meeting the requirements of the Code.
41. When applying the guidance in this AGN to their work, auditors should always keep in mind the ‘third party test’ set out in the FRC Ethical Standard which is that:
- ‘... consideration of whether the ethical outcomes required by the overarching principles and supporting ethical provisions have been met should be evaluated by reference to the perspective of **an objective, reasonable and informed third party**’.*
42. The FRC has published [guidance](#) for auditors on the application of the Objective, Reasonable and Informed Third Party test alongside the revised Ethical Standard.
43. Those charged with oversight of the auditor’s independence are responsible for establishing, and in some cases advising local bodies on, policies and arrangements for ensuring compliance with relevant ethical requirements. For example, FTs are required<sup>4</sup> to adopt and implement a policy for considering and approving proposals for non-audit work to be provided by the auditor, taking into account relevant ethical guidance. Similarly, those charged with oversight of the auditor’s independence for other local public bodies will need to put in place arrangements – for example, through relevant terms of appointment, where applicable – by which requests for non-audit work, or other matters relating to the application of ethical requirements, are considered and, if appropriate, approved. Therefore,

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<sup>3</sup> The definition of a public interest entity is set out in Article 2.13 of Directive 2006/43/EC – commonly referred to as the Audit Directive. The UK Government has not designated any bodies as public interest entities that do not meet this definition. The definition of an other entity of public interest is set out in the FRC’s *Glossary of Terms (Auditing and Ethics)*, dated December 2024.



having regard to auditors' responsibilities relating to VFM arrangements, auditors should consider whether any work they undertake that supports either decision making, or the decision-making process, could fetter their discretion in terms of needing to report a significant weakness in arrangements in the future. As a result, where auditors conclude that undertaking such work does not impact their independence, they should document their judgement including their consideration of the 'third party test'.



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

44. 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](mailto:LACG.queries@nao.org.uk)
45. Information supporting auditors is available on the LACG extranet. This provides additional context and links to useful information sources where relevant. Updates will be communicated through the Weekly Auditor Communication (WAC). If there is a need for further statutory guidance during the year, the NAO may issue an addendum to this AGN.
46. The NAO also engages with the firms through its Local Auditors' Advisory Group (LAAG) and supporting technical networks to consider any emerging regime-wide technical issues on a timely basis. Auditors should follow their in-house arrangements for bringing significant emerging issues to the attention of their supplier's representative on LAAG or the relevant technical network.

## ANNEX TO AGN 01 – SUPPLEMENTARY GUIDANCE ON ETHICAL REQUIREMENTS

47. **This Annex forms part of AGN 01 and sets out explanatory and supplementary guidance on the provisions of the Code relating to safeguarding integrity, objectivity and independence.** The Code requires auditors to comply with the Financial Reporting Council's (FRC's) Revised Ethical Standard (December 2024), referred to in this Annex as the 'FRC Ethical Standard', at all audits of local public bodies.
48. Auditors of any local public bodies that are 'public interest entities' or 'other entities of public interest' (as defined in the FRC Ethical Standard) comply with the requirements of the standard applicable to auditors of 'public interest entities' or 'other entities of public interest'. Auditors of local public bodies that are not 'public interest entities' or 'other entities of public interest' should have regard to the guidance set out below in addition to complying with the FRC Ethical Standard.
49. The FRC Ethical Standard permits the provision of some non-audit and audit-related services, applying a cap to the value of services as a proportion of the audit fee in specified circumstances. This Annex to AGN 01 is consistent with the FRC Ethical Standard, but also applies the cap as follows.
50. Local public audit is wider in scope than the financial statements and includes other responsibilities such as the need to consider arrangements to secure value for money or to consider the exercise of the auditor's additional powers and duties under the Act. Therefore, audit work is defined as all work carried out under the Code.
51. When the auditor provides to the audited local public body, or its controlled undertakings, non-audit services (other than the services listed below), the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.
52. Although the 70% cap is similar to the limit applicable to public interest entities at paragraph 4.13 of the FRC Ethical Standard, the definition used in this AGN is the one applicable to local public bodies which are not public interest entities or 'other entities of public interest'. For the avoidance of doubt, this AGN has been tailored to the specific circumstances of local public bodies where it is helpful to clarify how the descriptions in the FRC Ethical Standard relate to the work of local auditors at relevant authorities.

### Non-audit and audit-related services

53. The FRC Ethical Standard sets out<sup>5</sup> non-audit services which may be provided but which may still count against the cap where this is applicable. This AGN does not apply the FRC Ethical Standard's list of permitted services to all local public bodies subject to audit under the Code, but does apply the 70% cap to non-audit or audit-related services provided, except in the circumstances set out below.

54. For the avoidance of doubt, the following non-audit services are explicitly excluded for the purposes of applying the 70% cap, in accordance with this Annex to AGN 01, at local public bodies:

- Reporting required by a competent authority or regulator under law or regulation, for example:
  - other assurance (such as work on the quality accounts of local health bodies or work on grant claims and returns at local authorities) where such assurance is mandated by legislation or by a relevant national body or regulator.
- Reports, required by or supplied to competent authorities/regulators supervising the audited entity, where the authority/regulator has either specified the auditor to provide the service or identified to the entity that the auditor would be an appropriate choice for service provider.
- Services which support the entity in fulfilling an obligation required by UK law or regulation, including listing requirements where: the provision of such services is time critical; the subject matter of the engagement is price sensitive; and an it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor for the audit of the financial statements is relevant to the service, and where the nature of the service would not compromise independence.
- Audits or examinations of controlled entities, including charities, consolidated into the accounts of local public bodies.
- Assurance or attest work requested by the auditor of another public body (or on their behalf by a regulator or the NAO), for example assurance procedures carried out by the auditor of a pension fund to support the audit of a scheme employer.
- Services to the parent undertaking of a local public body where the parent undertaking is a government department (for example the Department of Health) or a relevant national body (for example NHS England) and where such

<sup>5</sup> Paragraphs 5.40 and 5.41 of the FRC Ethical Standard



services are inconsequential to, and remote from, the decision-making of the local audited body.

- Any other services required by national legislation to be performed by the auditor.

55. The FRC Ethical Standard also permits certain audit-related services to be provided. Any such permitted audit-related services provided to local public bodies are subject to the 70% cap that is applicable under this Annex to AGN 01.

56. Note that for both non-audit services and audit-related services, there may be circumstances where it is appropriate to calculate the 70% cap in the context of the combined fee. For example:

- If the work is being undertaken for a pension fund, the 70% cap should be calculated in the context of the combined fee for the pension fund audit and the audit of the administering authority.
- If the work is being undertaken for an Integrated Care System (ICS), the 70% cap should be calculated in the context of the combined fee for all of the local NHS bodies within the ICS footprint irrespective of which body or bodies make the payment for the work.

### Prohibited services

57. Under this Annex to AGN 01, the following non-audit services cannot be provided to an audited local public body while the firm is, or is proposed to be, the auditor<sup>6</sup>:

a) tax services relating to:

- i. preparation of tax forms;
- ii. payroll tax;
- iii. customs duties;
- iv. identification of public subsidies and tax incentives unless support from the auditor in respect of such services is required by law;
- v. support regarding tax inspections by tax authorities unless support from the auditor in respect of such inspections is required by law;
- vi. calculation of direct and indirect tax and deferred tax; or

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<sup>6</sup> Note that a “clean year” is required for e) and h), consistent with the requirements in the 2024 FRC Ethical Standard (Appendix B).

- vii. provision of tax advice,
  - b) services that involve playing any part in the management or decision-making of the audited body,
  - c) bookkeeping and preparing accounting records and financial statements,
  - d) payroll services,
  - e) designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems,
  - f) valuation services, including valuations performed in connection with actuarial services or litigation support services,
  - g) legal services, with respect to:
    - i. the provision of general counsel;
    - ii. negotiating on behalf of the audited body; or
    - iii. acting in an advocacy role in the resolution of litigation,
  - h) services relating to the audited body's internal audit function,
  - i) services linked to the financing, capital structure and allocation, and investment strategy of the audited body, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited body,
  - j) promoting, dealing in, or underwriting shares in an entity controlled by the audited body,
  - k) human resources services, with respect to:
    - i. management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit where such services involve searching for or seeking out candidates for such positions, or undertaking reference checks for such positions;
    - ii. structuring the organisation design; and
    - iii. cost control.

## Relationships with audited bodies

58. The requirements of the FRC Ethical Standard relating to ‘financial, business, employment and personal relationships’ are applicable to audits of all local public bodies, with the following interpretations/points of clarification.
59. The FRC Ethical Standard gives examples of relationships that are not acceptable but these do not explicitly address relationships that may arise in all circumstances. In relation to the audits of local public bodies no partner, director or employee of the audit firm should:
- accept or hold a governance role, whether elected or appointed, with significant influence over the decision making or financial statements of an audited body for whom the firm is, or is proposed to be, the auditor;
  - be employed as a senior officer (whether paid or unpaid) – such as a chief financial officer at a local authority – at an audited body for whom the firm is, or is proposed to be, the auditor;
  - accept or hold a governance role, whether elected or appointed, with an entity or joint arrangement which is material or significant to an audited body for whom the firm is, or is proposed to be, the auditor;
  - where they are directly involved in the management, supervision or delivery of local audit work, take part in political activity, such as canvassing or standing for office or acting as a spokesperson, on behalf of a political party or special interest group, whose activities relate directly to the functions of a local public body audited by the firm; and
  - have any other relationship with the local public body that would compromise independence.

## Smaller authorities

60. Firms that carry out limited assurance reviews of the annual returns prepared by smaller authorities carry out their work under the Act, the Code and AGN 02 issued by the NAO on behalf of the C&AG.
61. Limited assurance reviews are not carried out under the auditing and ethical standards issued by the FRC and so firms that carry out such reviews should maintain arrangements to safeguard their integrity, objectivity and independence in respect of their work at smaller authorities. Such arrangements should be capable of satisfying an objective, reasonable and informed third party that there

are no perceived or actual threats that would compromise integrity, objectivity or independence. In particular, arrangements should ensure that:

- the firm only provides non-audit or audit-related services permitted by the FRC Ethical Standard; and
- any work, other than that carried out under the Code, does not exceed the higher of £250 or 20% of the total fee for the work under the Code.

## Effective date and implementation

62. The guidance set out in this Annex is effective on 15 December 2024, the same date as the FRC's Revised Ethical Standard.
63. Firms may complete engagements relating to periods commencing before 15 December 2024 in accordance with existing ethical standards, putting in place any necessary changes in the subsequent engagement period.
64. Engagements to provide previously permitted non-audit or additional services, entered into before 15 December 2024, and for which the firm has already commenced work may continue until completed in accordance with the original engagement terms, subject to the application of appropriate safeguards. Engagements to provide previously permitted services, or non-audit or audit-related services that would lead to the total value of non-audit services exceeding the 70% cap, may continue until currently active services are completed in accordance with the engagement terms as long as:
- the engagement was permitted under ethical requirements applicable when commenced; and
  - safeguards established continue to be applied.
65. A currently active service is one where the entity has already asked for advice in relation to a particular matter and the firm has commenced work in relation to that matter. It does not include advice on future matters that may, for example, be provided for in an open-ended engagement/contract.
66. If auditors consider that there are objective, proper and legitimate reasons why it would not be possible to follow the guidance in this Annex, they should set out their reasons within their audit documentation. In such circumstances, which are expected to be exceptional, the auditor should first discuss and agree the need for a departure from the guidance in this Annex with those charged with governance at the audited body (such as an audit committee) and/or, where applicable, with those charged with oversight of the auditor's independence (such as an auditor panel or appointing person under the Act). The audit team should also obtain the

agreement of the firm's Ethics Partner to departures from the guidance in this Annex and, in such circumstances, safeguards should be implemented that would be capable of satisfying an objective, reasonable and informed third party that there are no perceived or actual threats that would compromise integrity, objectivity or independence.

## Integrated care systems

67. The government has created Integrated Care Boards (ICBs) and Integrated Care Partnerships (ICPs) across England. This will be done at the same time as abolishing CCGs. ICBs will take on the commissioning functions of CCGs as well as some of NHS England's commissioning functions. They will also be accountable for NHS spend and performance within the system. The ICP will be tasked with developing a strategy to address the health, social care, and public health needs of their system, and being a forum to support partnership working. The ICB and local authorities will have to have regard to ICP strategies when making decisions. The ICB and ICP will also have to work closely with local Health and Wellbeing Boards. This will lead in some cases to more complex arrangements in terms of the activities and governance of the individual NHS entities to which local auditors are appointed.
68. This Annex therefore seeks to clarify how local auditors should approach their consideration of whether to undertake non-audit work, especially where the auditor does not cover the whole of the ICB or ICP footprint. This annex does not substitute for the requirements of the FRC Ethical Standard and the following will be relevant when considering the appropriateness of non-audit work.
69. **NHSE&I commissioning work on behalf of an ICS or NHS as a whole:** Auditors should not base their decision solely on which body actually pays or contracts for the work being commissioned; the auditor should consider the substance of the work and its ability to impact on their statutory duties under the Code.
70. **The 'third party test':** Paragraph 41 of this AGN is clear that "When applying the guidance in this AGN to their work, auditors should always keep in mind the 'third party test' set out in the FRC Ethical Standard, which is that:

*'... consideration of whether the ethical outcomes required by the overarching principles and supporting ethical provisions have been met should be evaluated by reference to the perspective of **an objective, reasonable and informed third party**.'* "

71. In the context of work across an ICB or ICP footprint, auditors should ensure that the ‘third party test’ is still satisfied with regard to the body or bodies for which they are the appointed auditor before undertaking work.
72. **Funding, control totals and resource limits:** Services that could influence the allocations of revenue or capital resource from other entities (e.g. the Department of Health & Social Care, NHS England, ICBs or other national bodies) to individual entities, or their control totals or resource limits, (for example work supporting financial or resource planning) can present threats to the auditor’s independence. In some cases, this may fall within part k) of prohibited services in paragraph 57 above, services linked to “financing, capital structure and allocation”. Therefore, if auditors decide to undertake work that could influence the allocation of revenue and capital resource limits or control totals, they should document their assessment of whether the relevant services are linked to decisions in respect “financing, capital structure and allocation” by the audited entity (which would be prohibited services). Where the auditor assesses the services to be permissible, they should document any threats identified (including in relation to funding decisions by other bodies) and the safeguards they have put in place to maintain their independence.
73. **Impact on VFM arrangements work:** As set out above in paragraph 43, auditors should also consider the impact on their responsibilities at all bodies to which they are appointed within an ICB or ICP footprint, including relevant NHS providers or local authorities, in line with the ‘third party test’.
74. **Public interest entities or other entities of public interest:** Auditors are reminded that under paragraph 39 of AGN 01 where a local public body meets either of these definitions, auditors should apply the relevant requirements of the 2024 FRC Ethical Standard.
75. **Further Safeguards:** Where the auditor is satisfied that the above considerations do not prevent the auditor from undertaking work, they should consider whether any additional safeguards would be appropriate for the circumstances, such as an Engagement Quality Review.

## APPENDIX – AUDITOR APPOINTMENT ARRANGEMENTS

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

### ***Foundation trusts***

The FT's council of governors is responsible for appointing auditors. The FT's council must ensure that, as part of the appointment process, their auditors meet the criteria specified in legislation, and must have regard to NHS England's guidance on appointment. The auditors must agree the terms of engagement with the FT in the form of a letter (letter of engagement<sup>7</sup>), and it is the FT that is responsible for contract management.

### ***Other local health bodies***

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

### ***Smaller authorities***

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

### ***Local government bodies (other than smaller authorities)***

Either local government bodies themselves, individually or jointly, make appointments, based on advice from a local auditor panel, or they opt into arrangements overseen on their behalf by the appointing person, Public Sector Audit Appointments Ltd (PSAA), specified by the Secretary of State for this purpose. This means that, for local government bodies, there are two scenarios:

- where local government bodies themselves make appointments, auditors must agree the terms of engagement with the relevant local authority in the

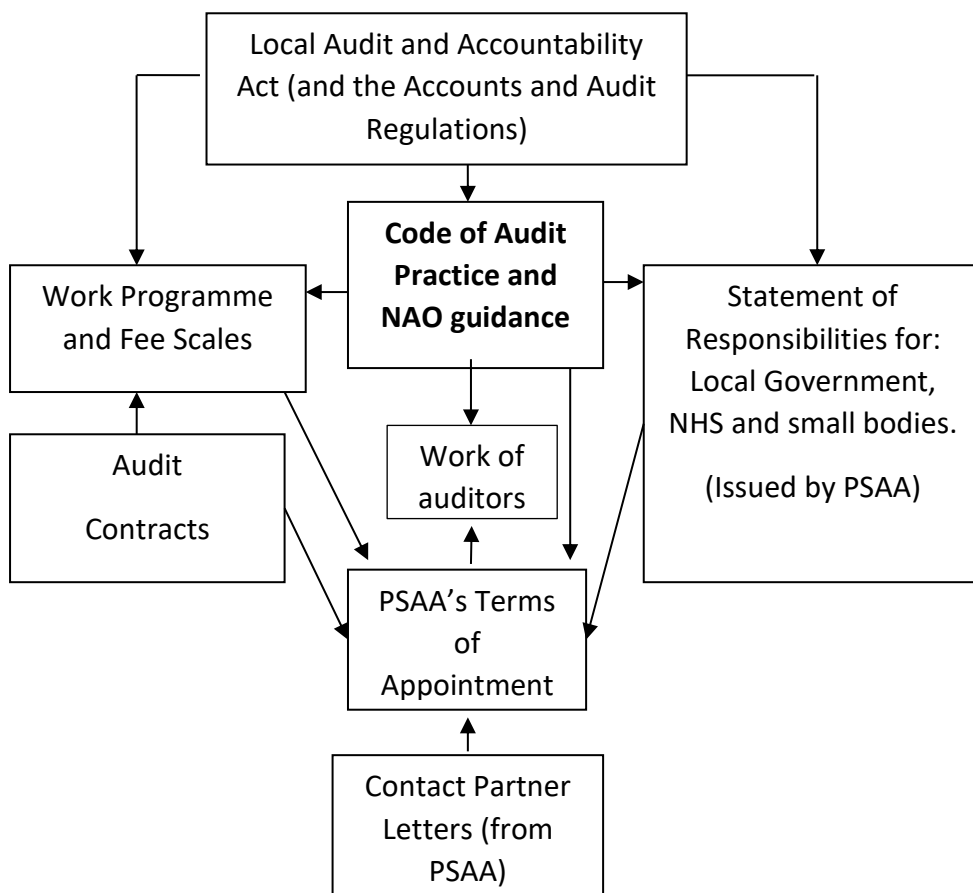
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<sup>7</sup> Where a letter of engagement is required its content must be consistent with the requirement for the audit to be carried out in accordance with the Act, the Code and guidance issued by the C&AG (including this AGN).

form of a letter of engagement, and the local authority is responsible for contract management; or

- where the appointing person, PSAA, makes the appointment, auditors must meet relevant obligations in their terms of appointment under contracts with PSAA.

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



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

To contact PSAA email: [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk). If the enquiry is about an appointed auditor email: [auditorappointments@psaa.co.uk](mailto:auditorappointments@psaa.co.uk).

Technical and legal queries to the NAO: [LACG.Queries@nao.org.uk](mailto:LACG.Queries@nao.org.uk).

Other information for the attention of the NAO’s Local Audit Code and Guidance team should be sent to: [LACG@nao.org.uk](mailto:LACG@nao.org.uk).