



Auditor Guidance Note 7 (AGN 07)

Auditor Reporting

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

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

The firms that are local auditors under the Act may use these communications to update their own internal communications and reference tools.

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



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

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

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

Introduction

This AGN sets out guidance on the application of the requirements of the NAO *Code of Audit Practice 2024* (the Code) for auditors when reporting the results of their audit work.

Auditors of smaller authorities should have regard only to sections 1 and 3 of this AGN, and should refer to AGN 02 for detailed guidance in respect of annual reporting.

This AGN supersedes the guidance note issued on 14 November 2025. Note that the 2024 Code sets out that auditors' work on VFM arrangements for audits relating to 2019-20 or earlier should be undertaken in accordance with Chapter Three and Chapter Four of the 2015 Code of Audit Practice and relevant AGN 03 and AGN 07. Auditors can access previous versions of our guidance via the Extranet or by contacting the NAO.

A separate suite of auditor guidance has been prepared for auditors to meet new requirements in the Code to complete their work in time to enable local public bodies (excluding NHS) to publish their audited accounts in accordance with any statutory deadlines ('backstop dates') set out in applicable regulations. Auditors should refer to the Local Audit Reset and Recovery Implementation Guidance notes (LARRIGs) alongside AGN 07 for auditor reporting requirements. For example, LARRIG 02 includes communications with Those Charged with Governance and the impact of the backstop on the auditor's report; LARRIG 03 deals with modifications of independent auditor's opinions on the financial statements for audits of English local authorities; and LARRIG 04 deals with auditor reporting requirements under ISA 250A (Consideration of Laws and Regulations in an Audit of Financial Statements) and reporting in the public interest.



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Section 1: General Principles

Objectives of Reporting

1. Reporting is fundamental to auditing. It is the way in which auditors communicate the results of their work in order to fulfil their legal and professional responsibilities. Effective reporting is the primary means by which auditors' work achieves its impact.
2. Paragraph 1.20 of the Code emphasises that auditors should use the most effective means of reporting in support of their statutory functions:
 - *"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".*

Principles of Public Audit

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

Principles of Effective Reporting

5. The Code requires auditors to comply with auditing standards but also recognises at paragraph 1.11 that it may be appropriate for the C&AG to issue guidance on the application of the Code to meet particular circumstances. This AGN recognises that there are particular circumstances relating to the audit reporting requirements for local bodies which impact on the application of auditing standards to local audits.

6. In particular, local public bodies are subject to audit under legislation and the Code, which gives auditors various reporting duties and powers. The scope of local public audit, which includes consideration of arrangements to secure value for money (VFM), is wider than that reflected in auditing standards. The range of means of reporting available to local auditors is also greater than is typically the case for auditors in other sectors where auditing standards apply and for all local bodies includes a requirement to issue an Auditor's Annual Report which must be published by the body after being issued by the auditor¹.
7. Therefore, in recognition of these particular circumstances, local auditors should use their professional judgement to apply the principles of effective reporting set out in this AGN through the range of reporting available to them.
8. The principles of effective reporting in this AGN build upon those that underpin auditing standards. The principles in this AGN also reflect the wider scope of local public audit. Therefore, local auditors should per paragraph 1.20 of the Code:
 - 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

¹ Local bodies are required to publish the Auditor's Annual Report to comply with the Accounts and Audit Regulations, Department of Health and Social Care Group Accounting Manual and the NHS England NHS Foundation Trust Annual Reporting Manual.

- 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.

Section 2: Annual Reporting

Annual Reporting Cycle

9. Schedule 1 of the Code sets out the auditor's statutory responsibilities according to the type of local body. A number of these relate to reporting, with further detail on the auditor's reporting responsibilities provided in Chapter Four and Schedule 4 of the Code.
10. The requirements applicable to bodies other than FTs are derived from the Local Audit and Accountability Act 2014 (the 2014 Act). The National Health Service Act 2006 (the 2006 Act) applies to the audits of FTs. [Schedule 10, paragraphs 3 to 5, of the 2006 Act](#) sets out the auditor's duties in relation to reporting the results of their audit work. The 2006 Act continues to apply to the audits of FTs but was amended by the 2014 Act to require FT auditors to comply with the Code prepared and published by the C&AG.
11. This section of the AGN covers annual reporting by the auditor under the Code. In particular, it provides guidance on:
 - audit planning;
 - reporting to those charged with governance;
 - the audit report;
 - the Auditor's Annual Report; and
 - audit completion certificate.

Audit Planning

12. Section 4.4 of the Code requires auditors to report how they plan to meet their responsibilities based on their assessment of risks. The audit planning report should cover both the work on the audit of the financial statements, and the work needed in respect of the audited body's arrangements to secure VFM.
13. The planning report should include the overall audit strategy and how this relates to the auditor's risk assessment. The planning report should also include the results of

any planning work already undertaken under *AGN 03 – Auditors’ Work on Value for Money (VFM) Arrangements*.

14. Any actions that have been agreed in respect of matters identified through previous audit work and where progress has been considered, the planning report should include reference to this.
15. The audit planning report should facilitate timely discussion between the auditor, management and those charged with governance, to demonstrate how the auditor’s responsibilities will be met under the Code. Auditors determine who those charged with governance are for the purpose of meeting their responsibilities under the Code, as this varies depending on the nature of the audited body.
16. The auditor should keep their initial risk assessment and planning under review, and if appropriate, should issue an additional planning report; update the report previously issued; or communicate changes through an audit progress report. Any change should be discussed with management and with those charged with governance.
17. Auditors will wish to refer to their audited bodies’ respective roles and responsibilities when reporting their plans.

Report to Those Charged with Governance

18. Sections 4.4 and 4.5 of the Code require auditors to report the results of their audit work to those charged with governance.
19. The report to those charged with governance needs to meet the requirements of ISA (UK) 260², but also needs to cover auditors’ work on VFM arrangements and any other reporting matters in relation to auditors’ additional powers and duties.
20. Wherever possible, the report to those charged with governance should be issued as one document covering all of the auditor’s work and responsibilities under statute and the Code. In the interests of promoting transparency in the audit process, in addition to the reporting requirements in respect of the audit of the financial statements, the report to those charged with governance should include:
 - an overview of the scope of the work on arrangements to secure VFM including a description of any assessed risk of significant weakness in arrangements as identified by the auditor, and the auditor’s response to those risks;

² ISA (UK) 260 (Revised November 2019) (Updated May 2022) Communication With Those Charged With Governance

- where additional work is performed in respect of any identified risks of significant weaknesses in VFM arrangements, auditors should also report this to those charged with governance;
- the audit findings from VFM arrangements work relating to significant weaknesses, including associated recommendations;
- any significant difficulties encountered when undertaking the work;
- significant matters, if any, arising from auditors' work on areas other than the financial statements that were discussed, or subject to correspondence, with management;
- any other matters arising from the work that, in the auditor's professional judgement, are significant to the auditor's consideration of arrangements to secure VFM; and
- the results of any additional work undertaken in accordance with their statutory powers and duties.

21. Auditors should satisfy themselves that the report to those charged with governance is considered at an appropriate level within the relevant audited body. Auditors of an FT should agree with the body the most appropriate form of reporting.
22. Auditors should use the report to help those charged with governance to understand the audit process, key risks and judgements, and findings in advance of issuing their opinion on the financial statements. The report should refer back to the audit planning report and any relevant interim reports or updated planning documents, including any significant weaknesses identified in relation to VFM arrangements and recommendations issued in response.
23. While the ISA (UK) 260 report may be appropriate for reporting significant weaknesses in VFM arrangements, AGN 03 stresses the importance of timely reporting and states that the auditor should decide on the most appropriate format. This could also be, for example, via a stand-alone interim report or as part of an audit committee update.

Audit Report

24. At the conclusion of the audit, the Code requires auditors to issue an audit report³. Section 4.6 of the Code requires the audit report to cover:
 - the results of the auditor's work on the financial statements as set out at paragraphs 2.7 to 2.13 of the Code including consideration of other

³ In this AGN 'audit report' means the outputs required by Section 20 of the 2014 Act (for bodies other than FTs) and schedule 10 of the 2006 Act (for FTs).

information published together with the audited financial statements. Auditors are reminded that paragraph 2.13 of the 2024 Code sets out limited exemptions from the requirement to issue an audit opinion in time for bodies to publish audited accounts by the statutory publication date. These exemptions are:

- *“the auditor is considering an objection that may have a material impact on their opinion on the financial statements;*
- *in the auditor’s judgement recourse to the Court could be required; or*
- *the auditor is unable to satisfy themselves as to whether there are significant weaknesses in the body’s arrangements to secure economy, efficiency and effectiveness in its use of resources except in relation to incomplete audits up to and including 2022-23 where auditors should refer to Schedule 4”.*

In relation to the exemption on objections, auditors should not only determine whether the objection is material to their opinion on the financial statements but should also consider whether the objection could result in the auditor needing to report significant weaknesses in VFM arrangements.

- by exception, any reporting of significant weaknesses identified from the auditor’s work and a summary of associated recommendations made as set out at paragraphs 3.15 and 4.6 of the Code. As stated in AGN 03, when reporting by exception, auditors should confirm that they have identified a significant weakness and state to which of the reporting criteria the weakness relates. Since the detail of the significant weakness and the associated recommendation will have been reported to those charged with governance, a summary of the auditor’s recommendations will suffice; and
- by exception, any report by the auditor on a range of additional matters as set out in the Code: *Schedule 2 – Audit report: Inclusion of additional matters by exception.*

25. Paragraph 2.7 of the 2024 Code states that the audit report should include “*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”.*

Paragraph 2.8 states “*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.*

Paragraph 2.9 goes on to say: “*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.*”

Where the auditor has issued a disclaimed opinion, they may conclude that they have not been able to form a view on the above matters. If this is the case, the auditor should state this in their audit report.

26. The partner or director who is the relevant engagement lead should sign the audit report with their name as well as the name of the firm of auditors.⁴
27. Auditors should seek to keep the audit report concise and, where relevant, use the Auditor’s Annual Report as the means of providing fuller and more accessible reporting to the public.

‘Enhanced’ Reporting

28. Where the auditor concludes that a local authority meets the definition of a Public Interest Entity under the FRC’s Revised Ethical Standard, they should adopt the

⁴ Auditors may sign the opinion in typeface or legible manuscript provided that both the name of the engagement lead and the firm is included and that the signature reflects the intention to authenticate the finalised audit report. Further details regarding arrangements for issuing the auditor’s report at principal local government audits are available in supporting information separately provided to local auditors.

additional ‘enhanced’ reporting requirements in ISA (UK) 700⁵, including the reporting of Key Audit Matters under ISA (UK) 701⁶.

29. Where auditors issue an enhanced report, this should only include Key Audit Matters to support the opinion on the financial statements. Auditors should also include, by exception, significant weaknesses in VFM arrangements and a summary of the associated recommendation(s). The commentary on VFM arrangements should include any matters arising from the auditor’s work and should be included separately in the Auditor’s Annual Report in accordance with section 4.6 of the Code and *AGN 03 – Auditors’ Work on Value for Money (VFM) Arrangements*.

Pension Funds

30. For administering authorities, in many cases the opinion on the pension fund annual report will be given at the same time – or very shortly after – the opinion on the administering authority’s financial statements. However, finalisation of the pension fund annual report in some cases may be as late as 1 December (the statutory deadline for publication).
31. Where the authority’s audited accounts have already been published (or are published simultaneously) and these contain the pension fund financial statements, auditors need to report on whether the pension fund accounts within the pension fund annual report are consistent with the authority’s accounts.
32. The Code of Audit Practice also sets the expectation that local auditors will co-operate where it is possible and efficient to do so. As part of this, auditors have agreed a voluntary protocol with each other and the NAO that covers the agreement of timescales for requesting and providing assurances and keeping auditors informed of potential delays. Consistent with this principle, the provision of IAS 19 assurances to auditors of relevant authorities under the Act and in accordance with the protocol should be considered work undertaken under the Code of Audit Practice. Arrangements for provision of assurances to auditors of other admitted bodies should be considered by auditors in accordance with their firm’s policies on such matters.

⁵ ISA (UK) 700 (Revised November 2019) (Updated May 2022) Forming an Opinion and Reporting on Financial Statements

⁶ ISA (UK) 701 (Revised November 2019) (Updated May 2022) Communicating Key Audit Matters in the Independent Auditor’s Report

Harbour Authorities

33. Specific accounting and audit requirements⁷ apply to harbour authorities in line with the requirements of the Harbours Act 1964. The only direct requirement placed on appointed auditors is in Section 42(5) which requires the authority to send a copy of the statement of accounts relating to harbour activities ‘together with a copy of the auditor’s report on it’ to the Department for Transport (DfT).
34. The DfT is responsible for issuing guidance covering the accounting and reporting requirements for harbour authorities. Section 42 of the Harbours Act 1964 does not provide detail on the nature, scope and content of the auditor’s report and so auditors may wish to refer to the supporting information issued on the LACG extranet.

Consolidation Returns

35. In addition to giving an opinion on the statutory accounts, auditors are also required to report on the consistency of certain consolidation returns with the statutory accounts. These are not provided within the audit report but take the form of a separate statement on relevant packs to support consolidation of health accounts and the preparation of Whole of Government Accounts (WGA). Auditors should refer to guidance on these requirements in *AGN 05 – NHS Audit Planning* and *AGN 06 – Local Government Audit Planning*.

Auditor’s Annual Report

36. The Code places a requirement on the auditor to produce an Auditor’s Annual Report⁸ for all local bodies. A major element of the Auditor’s Annual Report will be the commentary in accordance with Chapter Three of the Code and *AGN 03 – Auditors’ Work on Value for Money (VFM) Arrangements*.
37. Section 4.7 of the Code requires the commentary to 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*”. AGN 03 states that

⁷ Statutory Harbour Undertakings (Accounts etc.) Regulations 1983

⁸ The Auditor’s Annual Report is a report produced each year by the local auditor that summarises the work they have undertaken on the audit, their findings and any recommendations. Local public bodies are required to publish it to comply with the Accounts and Audit Regulations, Department of Health and Social Care Group Accounting Manual and the NHS England NHS Foundation Trust Annual Reporting Manual.

where the auditor cannot yet determine whether a recommendation has been implemented satisfactorily (for example, where an inspectorate is yet to revisit and re-assess), they should reflect their understanding of the current position. Auditors should continue to follow up previously issued recommendations until they have been fully addressed.

38. AGN 03 also confirms that auditors may include in their commentary areas for improvement or to keep in view even if they do not identify any underlying significant weaknesses in arrangements. While the auditor is free to determine how they choose to describe such matters, they should ensure that they are clearly distinguished from recommendations relating to significant weaknesses.
39. The Auditor's Annual Report is a public facing document that sets out the position on the audit at the time it is issued and should be written for a wider audience.
40. The Code states in paragraph 4.8 that the *"auditor should aim to issue their draft 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."* For any 2023-24 audits that are incomplete however, these should be reported in accordance with the 2020 Code.
41. From 2024-25, for relevant authorities other than local NHS bodies, auditors should issue their draft auditor's annual report to those charged with governance by 30 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. For 2023-24 only, the Code requirement to issue an auditor's annual report by 30 November is suspended. Auditors may exercise judgement to determine when to issue their annual report including their commentary on arrangements to secure value for money.
42. In accordance with paragraphs 4.7-4.11 of the 2024 Code, the Auditor's Annual Report must include:
 - the commentary on VFM arrangements;
 - details of any recommendations relating to significant weaknesses in VFM arrangements 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;

- 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 where relevant work on WGA; and
- (by exception), reference and/or follow-up to any reporting by the auditor under the auditor's additional reporting powers.

43. It is generally a matter of auditor judgement to determine the level of detail considered to be appropriate when meeting the requirements of paragraph 42 above. Where auditors have reported under ISA(UK) 260 on delays to the audit opinion or significant difficulties encountered when undertaking their work (paragraph 20), these should be reflected in the Auditor's Annual Report unless the auditor judges that public disclosure would not be appropriate.
44. Where auditors consider it to be appropriate, they may issue a combined Auditor's Annual Report⁹ and commentary covering more than one body. This could be where local bodies are merging or demising or where there are shared management arrangements during the year under audit, for example, a police and crime commissioner and chief constable. However, where an auditor has identified a significant weakness in arrangements the commentary should identify clearly to which entity the weakness relates.
45. For bodies that demise at the end of a financial year, AGN 03 confirms that while the Code requires auditors to include a commentary on arrangements in their Auditor's Annual Report, the commentary should focus on whether or not any significant weaknesses were identified at the demised body. Auditors may also highlight any other findings that the auditor considers appropriate.
46. For incomplete audits year prior to 2023-24 for bodies other than local NHS bodies, paragraph 7, Schedule 4 of the 2024 Code states *"that 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."*

⁹ As a minimum the Auditor's Annual Report is issued on behalf of the audit firm.

Audit Completion Certificate

47. At the conclusion of the audit the auditor should issue the audit completion certificate. This closes the audit and marks the point when the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged.
48. The audit certificate is usually issued at the same time as the audit report. The auditor may issue the certificate in advance of completing their commentary and issuing the Auditor's Annual Report. However, in certain circumstances an auditor may issue their opinion on the financial statements and their Auditor's Annual Report, including their commentary on VFM arrangements, but cannot conclude the audit. Examples of such situations include:
- where a local authority also has a pension fund for which the opinion on the financial statements in the pension fund annual report is yet to be issued;
 - where there is outstanding work to be performed in relation to consolidation returns;
 - where confirmation has not been received from the NAO that the group audit (*Department of Health & Social Care for NHS and Whole of Government Accounts for non-NHS*) has been certified by the C&AG and therefore no further work is required to be undertaken in order to discharge the auditor's duties in relation to consolidation returns under paragraph 2.11 of the Code;
 - where there is an outstanding objection, or other matter that has come to the auditor's attention, which the auditor has concluded has no material impact on the presentation of the financial statements or their VFM arrangements work; and/or
 - where the certificate for the previous year has not yet been issued.
49. In relation to incomplete audits prior to 2023-24 for bodies other than local NHS bodies, Paragraph 5, Schedule 4 of the 2024 Code states: *"If the auditor has not completed their planned work on arrangements to secure value for money at the time they issue their audit report on the financial statements, they should include a statement to this effect. The auditor should explain that they have not yet completed sufficient work to determine whether there are significant weaknesses and confirm that they will report the outcome of their work in their commentary on arrangements and in the certificate."*

Revisiting the audit report when the certificate is delayed

50. Para 4.6 of the Code states: *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.* If any significant weaknesses in VFM arrangements arise as a result of considering an objection after the audit report has been issued, the auditor should include these in the certificate.

Part-Year Reporting Requirements

51. Where the auditor is required to issue an audit report in respect of a body that demises during the year of account, the requirement to certify completion still applies in respect of the demising body.
52. Paragraph 4.7 of the Code states “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).” For bodies that demise part way through a financial year, auditors should refer to paragraphs 83-89 of AGN 03 for guidance on the approach to VFM arrangements work. The auditor’s commentary can be limited to setting out the approach as outlined in paragraph 86 of AGN 03 and confirming whether any significant weaknesses have come to the auditor’s attention, including making any associated recommendations.

Section 3: Other Forms of Reporting

Introduction

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

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

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

Determining Whether, How and When to Report

55. Auditors should consider at each audit whether they need to use any of their discretionary powers to report. In particular, auditors are required to consider whether there is any matter on which they should report in the public interest¹⁰.

56. It is for the auditor to exercise their judgement and determine the most appropriate and effective means of reporting. When doing so, auditors should bear in mind the principles set out in paragraph 1.20 of the Code and the principles of effective reporting set out in this AGN. In particular, auditors should report on a timely basis and without fear or favour.

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

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

¹⁰ See paragraph 1 of Schedule 7 of the 2014 Act.

- which form of reporting is likely to be most effective in helping the audited body to understand the significance of the matter and the need to take action; and
- whether previous reporting has been acted upon and, if not, whether more prominent reporting – such as issuing a statutory recommendation or a report in the public interest – is now necessary.

58. The auditor may consider the audited body's own governance or other annual reporting and whether it is sufficient to draw attention to the body's own reporting in the auditor's report to those charged with governance and in the Auditor's Annual Report. However, there will be some matters on which the auditor needs to report in a timely way or to achieve more prominence and impact. The 2024 Code requires auditors to raise any significant weaknesses in respect of VFM arrangements promptly with those charged with governance at the body. Auditors may make recommendations at any time during the year and should include any recommendations in respect of significant weaknesses that have been made, along with the auditor's view on progress with implementation in the Auditor's Annual Report.

Interim Reporting

59. The Code allows the auditor at any stage of the audit to communicate the results of, or matters arising from, specific elements of their work to management and those charged with governance.
60. Auditors should comply with ISA (UK) 260, which requires the auditor to communicate with those charged with governance on a timely basis. Auditors should raise any significant weaknesses in respect of VFM arrangements promptly with those charged with governance at the body as set out in paragraph 61. Where an auditor identifies issues in the course of the audit which they wish to bring to the attention of management or those charged with governance, they should do so using the most appropriate means of communication.
61. Examples of situations where the auditor may wish to issue some form of interim report include:
- identification of issues that are likely to lead to a modified opinion or another form of public reporting;

- where a significant difficulty has been encountered during the audit and those charged with governance are able to assist the auditor to overcome the difficulty;
- where the auditor's risk assessment has been revisited and has changed during the year – for example in respect of their work on VFM arrangements, auditors should also report this to those charged with governance;
- identification of significant deficiencies in internal control or significant weaknesses in VFM arrangements; or
- completion of a significant piece of work which the auditor has identified is necessary as part of their work supporting the audit of the financial statements, or in respect of arrangements to secure VFM.

Statutory Recommendations

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

Schedule 7 Recommendations

65. The ability to make a schedule 7 recommendation to an audited body, which the body must consider and to which it must respond publicly¹¹, is a powerful tool for the auditor. A schedule 7 recommendation can be made during or at the end of the audit. The auditor can follow up the audited body's response to the recommendation as part of planned or future audit work.

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

66. Making a schedule 7 recommendation can be useful where the background to an issue is already in the public domain. They can:

- direct the audited body to respond to specific shortcomings or failures; or
- assist in monitoring the audited body's progress on specific issues.

67. To be effective, a schedule 7 recommendation needs to be clearly worded so that it is obvious what the audited body should consider. It should also clearly set out what the audited body should do, and by when, in response to the recommendation. There is no right of appeal against a schedule 7 recommendation.

68. While it is no longer a requirement of the 2014 Act, it is important that the status of such recommendations are clearly understood. Auditors should therefore clearly state that they are making a recommendation under paragraph 2, Schedule 7 of the 2014 Act when doing so. This can be included within a separate specific letter or report to the audited body or within other written outputs. When making a recommendation under Schedule 7, the auditor should ensure that the audited body is aware of the statutory requirements for considering and responding to the recommendation as appropriate¹².

69. The auditor must also copy a schedule 7 recommendation to the relevant Secretary of State. For Integrated Care Boards (ICBs), NHS England must also be notified¹³.

Section 27 Recommendations

70. The other type of statutory recommendation that an auditor can make is known as a section 27 recommendation. Under the 2014 Act the auditor may make a section 27 recommendation after considering an objection and concluding that there are no grounds for reporting in the public interest or applying to the court for a declaration that an item of account is unlawful, but the auditor has identified actions that the audited body should take to strengthen its processes or arrangements.

71. Section 27 recommendations do not impose requirements on audited bodies for public consideration and response, and auditors are not required to send a copy of these recommendations to the relevant Secretary of State.

¹² Note that in line with Schedule 7(5)(4)(b), NHS bodies are not required to respond publicly.

¹³ Further details regarding arrangements for copying schedule 7 recommendations to the relevant Secretary of State are available on the LACG extranet in the supporting information to this AGN.

Reports in the Public Interest

72. Section 4.13 of the Code sets out the auditor’s responsibility to consider whether, in the public interest, they should report on any matter that comes to their notice so that it is brought to the attention of the audited body and the public. Schedule 7 of the 2014 Act, and in particular paragraphs 1, 3 and 4, sets out the auditor’s powers to issue a public interest report and the process that must be followed by the auditor and the audited body which is the subject of the report. For FTs, paragraphs 3-4 of Schedule 10 of the 2006 Act include a similar requirement for auditors to consider the need for a public interest report.
73. Guidance on considerations relevant to issuing a public interest report is set out in *AGN 04 - Auditors’ Additional Powers and Duties*.
74. Reporting in the public interest is one of the highest profile powers available to the auditor and is one which is taken particularly seriously by audited bodies and commentators. The body has to consider and respond to the report and there are also publicity requirements that audited bodies must fulfil if they receive a public interest report.
75. If an auditor identifies a matter for which they feel the issue of a public interest report would be appropriate, they should consider whether the matter is sufficiently important to be brought to the attention of the audited body and the public, and if the public interest would best be served by publicising the issue of concern.
76. The auditor can issue a public interest report in relation to any matter whether identified as part of routine audit work or as a result of investigation into a particular subject. The need to report in the public interest can arise during the course of or after the end of the audit. The auditor should tailor their approach to the significance and urgency of the matter, and may publish the report in any way the auditor thinks fit.
77. The 2024 Code also sets out in paragraph 5.5 that “*where the auditor issues a modified audit report on the financial statements that is not solely 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).*”
78. When making a public interest report during the audit, the auditor must not fetter their discretion at the end of the audit year in giving their audit opinion. The auditor should therefore include a statement that their opinion will depend on any further matters or information that come to light on the matter reported upon.

79. In addition to sharing the material documents and seeking representations and comments from interested parties, auditors should share relevant parts of the draft report which they are considering making with anyone whom the report is criticising. Auditors should also share the report with the audited body itself and any relevant connected entity. When sharing draft reports, the auditor should make clear that the draft is confidential and should not be shared other than with an advisor.
80. Comments received during the consultation process may result in changes to the draft or even a decision that a public interest report will not be issued. If changes are made as a result of representations which are adverse to any party, the auditor should repeat the process of sharing the report or relevant parts of it and inviting comment.
81. Auditors should make clear that a final decision to issue will only be made once all the material information and any representations received on that information have been fully considered.
82. For bodies other than FTs, when making a public interest report the auditor should send it, as soon as reasonably practicable after it is made, to:
- the body concerned (whether the relevant authority or a connected entity);
 - if in relation to a connected entity, to the relevant authority to which the entity is connected and any other relevant authority with which the entity is connected;
 - the Secretary of State¹⁴; and
 - where relevant, the Greater London Authority.
83. For FTs, when making a public interest report the auditor should send it immediately, or within 14 days of the conclusion of the audit where not an immediate report, to:
- the council of governors of the FT;
 - the board of directors of the FT; and
 - NHS England¹⁴.
84. Auditors of NHS bodies, where these bodies are the subject of a potential public interest report involving issues of legality, should also consider their responsibilities to make a referral under Section 30 of the 2014 Act or a referral to NHS England under Schedule 10 of the 2006 Act.

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

Referral of Matters Arising

85. As set out in Section 4.13 of the Code, the auditor of a health service body has a duty to consider whether there are any issues arising during their work that indicate possible or actual unlawful expenditure or action leading to a possible or actual loss or deficiency that should be referred to the Secretary of State, and NHS England as appropriate.

86. Under [Section 30](#) of the 2014 Act, and under [Schedule 10](#) of the 2006 Act for FTs, where an auditor believes that the body or an officer of the body:

- a) is about to make, or has made, a decision which involves or would involve the incurring of expenditure which is unlawful, or
- b) is about to take, or has taken, a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency,

the auditor should make a referral as follows:

- NHS ICBs – to the Secretary of State and NHS England;
- NHS trusts – to the Secretary of State and notify NHS England;
- FTs – to NHS England.

87. Auditors have no duty to seek out matters for referral to the Secretary of State. Auditors should consider matters arising during their work and matters raised by members and officers of the audited body and by others.

88. Auditors should give particular consideration to any report that is made by any officer of the audited body, which comes to their attention and which provides evidence of possible unlawful expenditure, an unlawful course of action leading to a loss or deficiency, or a likelihood of expenditure exceeding income.

89. As soon as an auditor believes, or has reason to believe, that either of the circumstances set out in criteria a) or b) above is met, this triggers the referral duty. Once the auditor has reached the decision to refer, the referral must be made as soon as reasonably practicable (or ‘at once’ for FTs). This means referrals can be made before issuing the opinion on the financial statements¹⁵.

90. Auditors have no statutory requirement to consult the audited body before referring a matter to the Secretary of State, and in some circumstances, it may not be appropriate

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

to give notice to the audited body before taking action. Consultation is good practice however, helping to ensure accurate reporting with appropriate context, and also drive positive management action.

91. Taking account of the requirement for referrals to be made promptly, auditors should seek to give the audited body an opportunity to respond to the issues giving rise to the referral. This should be considered even if it is only possible to give the audited body a very short period to respond.
92. There are no statutory requirements about the content of the auditor's referral to the Secretary of State. Referrals should be clearly drafted, taking account of the complexity of the issue. A complex issue may warrant a detailed referral, providing an explanation of the relevant issues.
93. The Secretary of State will be aware of financial challenges faced by audited bodies through in-year monitoring arrangements. Less detail will therefore be required in referrals relating to an actual or expected breach of resource limits or breach in breakeven duty. In such cases, a short letter-style may provide a clearer form of reporting.

Other Support and Raising Technical Issues or Queries on this AGN

94. 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.
95. Information supporting auditors is available on the LACG extranet. Updates will be communicated through the Weekly Auditor Communication (WAC). If there is a need for further statutory guidance during the year, the NAO may issue an addendum to this AGN.
96. 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.