



Local Audit Reset and Recovery Implementation Guidance (LARRIG) 02

Guidance on the impact of backstop arrangements on audits of English local authorities

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About Local Audit Reset and Recovery Implementation Guidance

Local Audit Reset and Recovery Implementation Guidance notes (LARRIGs) 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 2014 Act). LARRIGs are prepared and published with the endorsement of the Financial Reporting Council (FRC) 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](#) published by the NAO on behalf of the C&AG.

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 LARRIGs are intended to be in place for a limited period of time and will be withdrawn once no longer necessary.

The NAO prepares Local Audit Reset and Recovery Guidance notes (LARRIGs) 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 LARRIGs cannot be reproduced, copied or re-published by parties other than local auditors without permission from the NAO.

LARRIGs are designed specifically to assist local auditors in forming their own understanding of the requirements of the Code during the reset and recovery of the local audit system. Auditors are required to have regard to LARRIGs, 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. LARRIGs 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 LARRIGs are comprehensive or that they will provide a definitive answer in every case.

This LARRIG is relevant to local auditors of local public bodies covered by the Local Audit and Accountability Act 2014 and the [Code of Audit Practice](#) **except** auditors of local NHS bodies including NHS foundation trusts and smaller authorities as defined by the 2014 Act.



Introduction and context

The guidance within this document is prepared to assist auditors in meeting their responsibilities under the [Code of Audit Practice](#) (the Code).

This document sets out guidance to auditors of English local authorities on the performance of audits affected by the proposed legislative changes to the Accounts and Audit Regulations 2015. These changes would require relevant authorities in England under Schedule 2 of the Local Audit and Accountability Act 2014 that are not NHS bodies or smaller authorities to publish audited annual accounts for the financial years 2015/16 to 2022/23 by a ‘backstop’ date. This is currently planned to be 13 December 2024.¹

Contents

This guidance is structured as follows:

Status of guidance	3
The impact of the backstop on the performance of the audit	4
Public interest considerations.....	7
Audit documentation	8
Communications with Those Charged With Governance	9
The impact of the backstop on the auditor’s report.....	10
Departure from LARRIG Guidance and Raising Technical Issues or Queries	13

¹ Department for Levelling Up, Housing & Communities, [‘Addressing the local audit backlog in England: Consultation’](#) (February 2024).



Status of guidance

1. This document sets out guidance to auditors of English local authorities on the performance of audits affected by the proposed legislative changes to the Accounts and Audit Regulations 2015. These changes would require relevant authorities in England under Schedule 2 of the Local Audit and Accountability Act 2014 that are not NHS bodies or smaller authorities to publish audited annual accounts for the financial years 2015/16 to 2022/23 by a 'backstop' date. This is currently planned to be 13 December 2024.²
2. The scope of this guidance is limited to audit engagements where a proposed backstop will create a potential limitation of scope, imposed by legislation, where the auditor is unable to obtain sufficient appropriate audit evidence to conclude whether the financial statements as a whole are free from material misstatement. It is also limited solely to the audit of the entity's financial statements in accordance with the ISAs (UK). It does not address the auditor's responsibilities for value for money arrangements reporting, their wider powers and responsibilities, or circumstances relating to the issuance of the audit certificate.
3. The scope of this guidance is also limited solely to the application of ISAs (UK) in the exceptional circumstances created by the backlog in completing audits of English local authorities. It is also limited solely to audits of annual accounts for financial years up to and including 2022/23. As this guidance is issued by the C&AG under paragraph 9 of Schedule 6 of the 2014 Act, it applies only to relevant authorities as defined by the Act. Future guidance will address the impact of proposed backstop arrangements on audits of annual accounts for financial years after 2022/23.
4. There are two overarching principles which auditors should follow when applying this guidance:
 - a. Powerful public interest considerations require a return, as soon as is reasonably possible, to a position where auditors are able to issue opinions on local body financial statements that are based on sufficient appropriate audit evidence. This is because the timely delivery of high-quality financial reporting and external audit is vital for the provision of accountability, transparency, and assurance for local people and their elected representatives.
 - b. It is only possible for an auditor to determine that they are unable to obtain sufficient appropriate audit evidence on which to base the opinion and conclude that the possible effects on the financial statements could be both material and pervasive by making reasonable endeavours to perform the

² Department for Levelling Up, Housing & Communities, '[Addressing the local audit backlog in England: Consultation](#)' (February 2024).

audit in accordance with the ISAs (UK). The determination of reasonable endeavours within the context of a specific audit requires the exercise of professional judgement by the auditor, and this guidance is intended to assist auditors in the exercise of that professional judgement.

5. It is also important to emphasise that the timely delivery of audited financial statements is a collective enterprise where both preparers and auditors have important responsibilities. The public interest considerations described in paragraph 4(a) also apply to local bodies, since effective governance and internal controls, allied to accurate and timely financial reporting, are also an essential condition to support a return to the timely delivery of audited financial statements where the auditor is able to reach opinions based on sufficient appropriate audit evidence.

The impact of the backstop on the performance of the audit

6. An ISA (UK) compliant audit requires the auditor to commence every engagement with the intention of meeting all the relevant objectives of the audit, in accordance with ISA (UK) 200, paragraph 11:³

In conducting an audit of financial statements, the overall objectives of the auditor are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and*
- (b) To report on the financial statements, and communicate as required by the ISAs (UK), in accordance with the auditor's findings.*

7. The auditor is also required to meet the objectives of all relevant ISAs (UK) during the performance of the audit, in accordance with paragraph 18 of the same standard:

³ ISA (UK) 200 (Revised June 2016), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)*.

The auditor shall comply with all ISAs (UK) relevant to the audit. An ISA (UK) is relevant to the audit when the ISA (UK) is in effect and the circumstances addressed by the ISA (UK) exist.

8. The proposed backstop date creates circumstances which may require auditors to consider modifying their opinion. The backstop could create time constraints that impede the auditor from completing all necessary procedures to obtain sufficient appropriate audit evidence to support the opinion and fulfilling the objectives of all relevant ISAs (UK). This would then prevent them from meeting the overall objectives of an audit as set out in ISA (UK) 200, paragraph 11(a).
9. The auditor may become aware of these conditions at the time of the completion or revision of the overall audit strategy required by ISA (UK) 300.⁴ In particular, paragraph 8 includes the following requirements:

In establishing the overall audit strategy, the auditor shall: [...]

(b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required; [...]

(e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.

10. These requirements ensure that the auditor must consider the time constraints in which they can perform the audit, and to identify the resources needed to perform the audit.
11. These provide a reasonable basis for the auditor to conclude that they cannot meet the objectives of ISA (UK) 200 paragraph 11(a) before the backstop date.
12. ISA (UK) 200, paragraph 12, states:

In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the ISAs (UK) require that the auditor disclaim an opinion or withdraw (or resign) from the engagement, where withdrawal is possible under applicable law or regulation.

The contractual arrangements in place for audit engagements within the Public Sector Audit Appointments framework limit the circumstances where auditors can

⁴ ISA (UK) 300 (Revised June 2016), *Planning an Audit of Financial Statements*.

resign. Accordingly, the auditor may need to disclaim their opinion on the financial statements in accordance with ISA (UK) 705.⁵

13. As the backstop date becomes closer in time, the likelihood that the auditor will be unable to obtain sufficient appropriate audit evidence will increase. This in turn increases the likelihood that the auditor will disclaim their opinion. The moment at which the auditor makes this realisation will require professional judgement and depends on factors such as the size and complexity of the audited entity. The auditor cannot disclaim their opinion because of backstop arrangements until these arrangements have full legal force, since it is only at that point that they represent a limitation on the scope of the audit.⁶

The auditor's considerations in circumstances where the backstop date is not met

14. The draft legislative changes to the Accounts and Audit Regulations 2015 set out scenarios whereby a local authority has delayed the publication date of their statement of accounts due to, for example, outstanding objections or because the local auditor is not yet satisfied that the authority has not made proper arrangements for securing the economy, efficiency, and effectiveness in its use of resources. In these circumstances, if the local authority publishes its statement of account as soon as reasonably practical, then the auditor can determine that the underlying reason for the issuance of a disclaimer of opinion remains the conditions created by backstop arrangements.
15. In circumstances where the local authority has delayed the publication date of their statement of accounts and where, for example, there are no outstanding objections and where the local auditor is satisfied that the authority has made proper arrangements for securing the economy, efficiency, and effectiveness in its use of resources, the auditor may determine that the underlying reason for the issuance of a disclaimer of opinion is no longer the conditions created by the backstop.
16. In these circumstances, the auditor must consider the implications for the auditor's report. The auditor may determine that management's failure to meet the backstop date represents a management-imposed limitation of scope, because of a change in the underlying reason for their inability to obtain sufficient appropriate audit evidence. This may be due to the management at the entity, rather than the conditions created by backstop arrangements. This determination requires the use of professional judgement by the auditor to consider the facts and circumstances

⁵ ISA (UK) 705 (Revised June 2016), *Modifications to the Opinion in the Independent Auditor's Report*.

⁶ ISA (UK) 705, paragraphs 6(b), A8.

which resulted in management's failure to meet the backstop date. Key elements in this determination will include:

- The length of the interval between the backstop and the eventual publication of the statement of accounts.
- The behaviour of management in relation to the need to meet the backstop date.
- Consideration of whether other events and circumstances beyond the control of management have contributed to a failure to meet the backstop date.

Public interest considerations

17. The public interest considerations articulated in paragraph 4(a) mean that the auditor should aim to perform as many audit procedures as are reasonably possible before the backstop date if this will support a timely return to obtaining sufficient appropriate audit evidence on which to base an opinion in subsequent audits. This is with a view to using the audit evidence obtained by these procedures in subsequent audits.
18. If it is possible for the auditor to come to an opinion on the financial statements other than a disclaimer of opinion resulting from the conditions created by the backstop, then public interest considerations mean that the auditor should make reasonable endeavours to do so in accordance with the ISAs (UK). An unmodified opinion, or a qualified opinion, will allow a successive audit to place reliance on all or part of the prior year audit, and enable the auditor to base an opinion on sufficient appropriate audit evidence.
19. If it is reasonably certain that the audit opinion will be disclaimed because of the conditions created by the backstop, the auditor should also endeavour to complete or update those elements of the audit plan which relate specifically to audit procedures which can be completed before the backstop. The same public interest considerations set out above mean that the auditor should ensure that the work performed is of sufficient quality to be used in subsequent audits as audit evidence, subject to the performance of appropriate audit procedures. This will support a timely return to a position where auditors are able to issue opinions on local body financial statements that are based on sufficient appropriate audit evidence.
20. It will require professional judgement on the part of the auditor to identify those risk assessment procedures which will require completion or updating in these circumstances. In particular, the auditor should prioritise work on those areas which, if not performed, could result in subsequent auditors being unable to obtain

sufficient appropriate audit evidence for specific balances or account areas. These include:

- Instances where access to supporting evidence has been lost.
- Balances which are determined through auditing in-year movements rather than the performance of audit procedures on opening and closing balances.

21. The auditor should avoid performing audit work that is not supported by adequate planning or the performance of supporting risk assessments. Since any audit procedures performed will not have been designed as responses to identified risks in accordance with the ISAs (UK), this work cannot readily constitute audit evidence for use in future audits unless it is subjected to significant further audit procedures in the future. This would not be in the public interest.

Audit documentation

22. In circumstances where the audit opinion is disclaimed due to backstop arrangements, the documentation requirements of ISA (UK) 200, paragraph 24 must be met:

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).

23. The auditor should also pay close attention to the requirements of ISA (UK) 230. In particular, the following requirements are particularly relevant:

- Paragraph 5:

The objective of the auditor is to prepare documentation that provides:

(a) A sufficient and appropriate record of the basis for the auditor's report; and

(b) Evidence that the audit was planned and performed in accordance with ISAs (UK) and applicable legal and regulatory requirements.

For the purposes of ISA (UK) 230, paragraph 5(b), completion of the overall audit strategy in accordance with ISA (UK) 300 may form a reasonable basis for demonstrating that the audit has been planned in accordance with the ISAs (UK) in

circumstances where backstop arrangements mean that the auditor is not able to complete all relevant planning procedures.

- Paragraph 8(c):

Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Where the auditor has determined, using professional judgement, that it would not be possible to achieve the objectives of a relevant ISAs (UK) due to the constraints imposed by backstop arrangements, the auditor must document this fact in accordance with ISA (UK) 200, paragraph 24, and ISA (UK) 230. Where appropriate, the failure to achieve the objectives of the relevant ISAs (UK) may be documented collectively as a significant matter for the purposes of ISA (UK) 230, paragraph 8(c).

Communications with Those Charged With Governance

24. When on establishment or revision of the overall audit strategy, if the auditor concludes that the backstop imposes a limitation of scope such that the individual objectives of the ISAs (UK), and the overall objectives of an audit cannot be met, the auditor may be unable to communicate all the matters required to be communicated in accordance with ISA (UK) 260 *Communication With Those Charged With Governance*. In these circumstances, the auditor should use professional judgement to identify these matters and explain to Those Charged with Governance why they cannot be communicated in accordance with ISA (UK) 260.
25. The frequency with which matters required by ISA (UK) 260 are communicated to Those Charged With Governance may be less in the circumstances created by backstop arrangements. It may therefore be appropriate to include all communications relevant to an audit within a single document.
26. In communicating with Those Charged With Governance, the auditor should also pay particular attention to the following requirements within ISA (UK) 260, paragraph 16:

The auditor shall communicate with those charged with governance:

(b) Significant difficulties, if any, encountered during the audit...

(d) Circumstances that affect the form and content of the auditor's report, if any...

27. ISA (UK) 260, paragraph 16(e), states that the audit shall communicate with those charged with governance:

Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process.

In these circumstances, the auditor should communicate significant matters which may have impeded the timely performance of the audit in the absence of backstop arrangements, with a view to avoiding these significant matters arising again in the future.

The impact of the backstop on the auditor's report

28. Where determination has been made in accordance with ISA (UK) 200, paragraph 12, that the opinion should be disclaimed, because withdrawal from the audit is not possible, the auditor should follow the requirements set out in ISA (UK) 705 *Modifications to the Opinion in the Independent Auditor's Report*.
29. As stated in paragraph 18 of this guidance, public interest considerations mean that the auditor should make reasonable endeavours to issue an audit opinion other than a disclaimer of opinion if they are able to do so.
30. The auditor is required to make a series of assessments in ISA (UK) 700, paragraph 11:

In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:

- (a) The auditor's conclusion, in accordance with ISA (UK) 330 (Revised July 2017), whether sufficient appropriate audit evidence has been obtained;*
- (b) The auditor's conclusion, in accordance with ISA (UK) 450 (Revised June 2016), whether uncorrected misstatements are material, individually or in aggregate; and*
- (c) The evaluations required by paragraphs 12–15.*

As explained elsewhere in this guidance, the conditions created by the backstop create constraints which may prevent the auditor from obtaining sufficient appropriate audit evidence to form an opinion on the financial statements. In these circumstances, the auditor may satisfy these requirements by stating that they were unable to obtain sufficient appropriate audit evidence on which to make these assessments because of the conditions created by the backstop.

31. ISA (UK) 705, paragraph 20 requires the auditor to provide ‘a description of the matter giving rise to the modification’ exclusively within the Basis for Opinion paragraph. Where a disclaimer of opinion is issued due to the conditions created by backstop arrangements, the auditor may meet this requirement by:

- Referring to the legislation that gives rise to the backstop.
- Stating that the backstop requires the publication of the audited financial statements by a specified date.
- Explaining that these conditions meant that they were not able to obtain all the necessary audit evidence upon which to form an opinion since there was insufficient time to perform all necessary audit procedures.
- Identifying audit areas for which they were unable to obtain sufficient appropriate audit evidence. In circumstances where the initial completion of the overall audit strategy leads the auditor to conclude that the backstop imposes a limitation of scope such that the individual objectives of the ISAs (UK), and the overall objectives of an audit cannot be met, the Basis for Opinion paragraph may include, where appropriate, a statement that no work has been performed with respect to any audit area.
- Including any relevant further explanations for the disclaimer relevant to the particular circumstances of the entity.

In doing so, the auditor shall also follow the requirement set out in ISA (UK) 700, paragraph 20-1.

The auditor's report shall be in clear and unambiguous language.

32. The auditor should also ensure that they satisfy the following paragraphs in ISA (UK) 705:

- paragraph 27:

Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.

- paragraph A24:

An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not justify the omission of a description of other identified matters that would have otherwise required a

modification of the auditor’s opinion. In such cases, the disclosure of such other matters of which the auditor is aware may be relevant to users of the financial statements.

33. In the event that the audit opinion is disclaimed due to conditions created by the backstop, the auditor’s report should also omit the following:
- a) The reporting of conclusions relating to going concern required by ISA (UK) 570 paragraph 21-1, since the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the going concern basis of accounting is appropriate.
 - b) Unless required by law and regulation, the section on Other Information in accordance with ISA (UK) 720. Auditors should note that paragraph 2.7 of the 2024 Code of Audit Practice requires auditors to report on other matters in their opinion on the financial statements, including “whether other information published together with the audited financial statements is consistent with the financial statements”. As this is a Code requirement, the NAO will issue guidance to auditors under AGN 07 – Auditor Reporting, setting out how auditors should approach this requirement when issuing a disclaimer opinion.
 - c) For entities within scope of ISA (UK) 701, the section on Key Audit Matters required in accordance with that standard should be omitted unless required by law and regulation.⁷
 - d) The explanation of the extent to which the audit was considered capable of detecting irregularities, including fraud, in accordance with ISA (UK) 700, paragraph 29-1. Since the auditor has not been able to obtain sufficient appropriate audit evidence on which to base the opinion, inclusion of this paragraph could mislead addressees of the auditor’s report over the extent to which the audit could detect irregularities, including fraud. Alternatively, auditors may meet the requirements of this paragraph by stating that the audit was defective in its ability to detect irregularities, including fraud, on the basis that the auditor was not able to obtain sufficient appropriate audit evidence due to the conditions created by the backstop.
34. In circumstances where the auditor disclaims or modifies their opinion on grounds other than the conditions created by the backstop, including the circumstances set out in paragraphs 14 to 16 of this guidance, the auditor may not refer to backstop or the explanations provided in paragraph 31 of this guidance within the Basis for Opinion paragraph. Where the opinion is disclaimed due to a management-imposed limitation of scope and the auditor determines that they cannot resign the

⁷ ISA (UK) 705, paragraph 29.



engagement, the auditor shall consider whether it is appropriate to include an Other Matter paragraph to discuss the specific circumstances that give rise to this determination in accordance with ISA (UK) 706, paragraph A10.

Departure from LARRIG Guidance and Raising Technical Issues or Queries

35. Where auditors judge that they need to depart from the guidance in a particular engagement, this should be drawn to the attention of the NAO and the FRC's Director of Local Audit who will consult with the appropriate organisations within the local audit system to resolve the issue.
36. 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.
37. All queries related to LARRIGs should be submitted to the NAO's Local Audit Code and Guidance (LACG) team by e-mailing LACG.queries@nao.org.uk. Auditors are reminded that only nominated contacts can email LACG Queries. Please email lacg@nao.org.uk to request additional contacts to be added, including details of role and supporting explanation.
38. 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 relating to the reset and recovery of the local audit system to the attention of their supplier's representative on LAAG or the relevant technical network.