

Audit Committee Update

Helping audit committees to be effective

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The local audit backstop – key questions answered for audit committee members

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Introduction

Dear audit committee member,

Welcome to the latest issue of Audit Committee Update from the [CIPFA Better Governance Forum](#). This resource aims to support audit committee members in their role by helping to keep them up to date.

In this issue, we consider the local audit backstop arrangements for English authorities. We explain key terms, what is happening and when, and how audit committees can help.

I hope you will find this issue interesting and helpful in your work on the committee.

Best wishes.

Diana Melville

CIPFA Better Governance Forum

Sharing this document

Please circulate this briefing widely to your organisation's audit committee members and colleagues. It can also be placed on an intranet.

Audit Committee Update is covered by CIPFA's copyright and so should not be published on the internet without CIPFA's permission. This includes the public agendas of audit committees.

This issue is open to all, but other issues of Audit Committee Update are restricted to the organisations that subscribe to the Better Governance Forum.

Receive our briefings directly

A link to this briefing will be included in the CIPFA Better Governance Forum subscribers' newsletter. It can then be shared with that organisation's audit committee members.

If you have an organisational email address (for example, jsmith@mycouncil.gov.uk), then you will also be able to register on our website and download any of our guides and briefings directly. To register, please visit cipfa.org/register.

Local audit backstop

Frequently asked questions

This article will help audit committee members understand the changes to internal audit standards and the transition your team will be making.

What are the key facts we need to know?

The backstop dates are a nationwide measure to address the backlog of incomplete audits of financial statements across local government in England.

They have been introduced as a way to reset the system and assist a return to a regular process of timely audit and publication of financial statements.

How your authority is affected depends on how many financial years' statements are outstanding.

The key dates are as follows:

Financial year	Statutory backstop date
2022/23 and before	13 December 2024
2023/24	28 February 2025
2024/25	27 February 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

As an audit committee what should we be doing?

Understand the current position and how it affects your authority, including:

- How many years' statements are affected?
- What is the current position for each one?
 - Has the unaudited (draft) statement been signed off by your CFO as ready for audit?
 - Are there other matters to take into consideration – for example, an unresolved legal case?
 - What does the auditor plan to do and when?

Then see what this means for the audit committee in reviewing the accounts, receiving the audit report and discussing progress with the finance team and the auditors.

What do our finance teams need to be doing?

The finance team's primary responsibility is to prepare the financial statements in accordance with professional standards to meet the deadlines. As a part of this process, it is important for them to prepare the necessary working papers to support the statements, as these will be needed as evidence by the auditors.

If the team has prepared financial statements to the required standards, meeting the deadline and ready for audit, then they have achieved one key responsibility. They will then need to support the audit by answering questions and providing evidence to the auditor.

What do your auditors need to do?

Auditors are contracted to undertake the audit to professional audit standards and in accordance with the Code of Audit Practice. That will not change, but there have been some revisions made to the code to accommodate the backstop dates.

The auditor will set out the plans and timetable – critically, can they complete the audit in time for the backstop date? This will depend to some extent on how ready the organisation is for the audit and to some extent on the resources available within the audit firm, but largely it will be constrained by the tight deadlines imposed by the statutory backstop dates. These factors will vary from firm to firm and from organisation to organisation, and it may change as the audit progresses. Regular communication is essential, so you know the up-to-date position.

What happens at the backstop date?

By this date at the latest, the accounts must be published with the opinion of the auditor. Ideally the audit will be completed and an unmodified opinion provided, but if this cannot be achieved in time, the auditor will issue a modified opinion.

What does a modified opinion mean?

Audit opinion	Description
Unmodified	This is the best possible outcome. It means the auditor obtains sufficient evidence to support a view that the financial statements are materially accurate and fairly represent the audited body's financial situation.
Qualified	This is problematic. The auditor has material concerns either because of not being able to gather sufficient evidence or finding evidence that suggests material error. However, the effect on the financial statements is contained in specific areas and is not widespread.
Disclaimer of opinion	This is more problematic than being qualified, reflecting a larger-scale lack of evidence – for example, due to time constraints imposed by the backstop dates – which means that the auditor

	cannot provide an opinion. The possible effects on the financial statements of undetected misstatements could be both material and widespread.
Adverse opinion	Normally considered the worst-case scenario. The auditor does not have sufficient evidence, but it suggests that material misstatements exist that undermine the reliability of the financial statements as a whole.

Will we still get a proper audit of the financial statements?

Auditors must still follow the professional standards and deliver good audit quality, so the work they undertake will still be to those standards. However, if the full audit is not completed, then some areas may not be fully audited. When the auditor issues the opinion, they must provide an explanation for why a modified opinion has been issued.

Will it damage our ability to borrow or invest?

It is difficult to say for sure, but CIPFA are aware that this is a concern of many authorities. As we expect a large majority of English councils to be affected, the matter should be understood by stakeholders as a widespread issue.

How do we explain to the public or our stakeholders why we have received a modified opinion?

A local authority is accountable to its local community and its stakeholders, so it is right that it takes steps to explain how it is affected by the backstop and why.

Audit committees should encourage clear accountability and communications.

Authorities should explain the national position but also be clear about any local issues that have contributed. The auditor's report should explain clearly the reasons – this provides some independent assurance to the public.

We are concerned that our auditors will issue a modified opinion – what can we do about it?

Talk to your audit engagement lead to understand why they think the auditors will be issuing a modified opinion. If it is because of delays that your organisation is responsible for, then you can speak to your finance teams to try and resolve the issues. If it is due to factors at the firm, or that the backstop dates are simply too close to allow the audit to be completed to the required standard, then that may be more difficult to resolve.

Who can we go to nationally with our concerns?

It is unlikely that the system partners will be able to resolve individual cases, but they are monitoring the national system and will raise concerns with firms.

- Public Sector Audit Appointments (PSAA) is responsible for monitoring audit contracts.
- Financial Reporting Council (FRC) is responsible overall for audit quality.
- MHCLG is the sponsoring department for local government and has introduced the backstop dates.

Will we get a reduction in fees?

[PSAA](#) set the fees nationally and have a national process to deal with audits under the backstop. It is not possible to say what the impact on fees is for each authority, as any variation in fees will take into account actual audit work completed. Over the whole period, more audit work might be needed by the auditors to restore assurance.

PSAA is responsible for setting audit fees and agreeing fee variations for authorities opted in to the appointment of their auditors.

What does a modified opinion mean for the audit of 2024/25 financial statements?

Financial year	Opinion on the statements	Basis
2023/24	Disclaimer	<p>The auditor has begun limited work to rebuild assurance ahead of the 2023/24 backstop date. They have not obtained sufficient evidence to have reasonable assurance over closing balances.</p> <p>The auditor does not have assurance over the brought forward balances from 2022/23 (the opening balances). This means they do not have assurance over the in-year movements. They also do not have assurance over the comparative prior year movements.</p> <p>The auditor judges the lack of evidence over these movements and balances and so cannot conclude that the accounts are free from material and pervasive misstatement of the financial statements. Therefore, they disclaim their audit opinion at the backstop date.</p>
2024/25	Disclaimer or qualified (except for)	<p>The auditor has obtained sufficient evidence to have assurance over closing balances in 2024/25.</p> <p>The auditor does not have assurance over brought forward balances that were deprioritised on the 2023/24 audit. This means they do not have assurance over all in-year movements. They also do not have assurance over the comparative prior year movements.</p>

		The auditor judges the lack of evidence over these movements and balances and so cannot conclude that the accounts are free from material and pervasive misstatement of the financial statements. Therefore, they disclaim their audit opinion at the backstop date.
2025/26	Qualified (except for)	The auditor has assurance over the opening and closing balances plus in-year movements. The auditor does not have assurance over the comparative figures. The auditor judges that this means there could be material but not pervasive misstatement and will need to qualify their opinion for 2025/26 by limiting its scope to not provide assurance over the comparative figures.
2026/27	Unqualified	The auditor has assurance over opening balances, closing balances, in-year movements and prior year comparatives. The auditor can therefore issue an unmodified opinion.

While the table sets out how auditors might approach the rebuilding of assurance, all audit engagements are different, and local circumstances will influence the extent to which the aspiration can be met. This means that while rebuilding may happen faster in some cases if circumstances allow, it may also take longer. Additionally, the recovery to an unmodified opinion may follow a different trajectory in some cases – for example, where modified opinions or disclaimers are not solely as a result of backstop date publication requirements, where disclaimers have been issued for several years, or where there are complex technical accounting issues to resolve.

The audit committee should ask their auditor to explain the work they will be doing during the recovery and what steps the finance team can take to play their part.

Does a modified opinion mean that we have less assurance over the robustness of our financial systems and the management of our finances?

The audit opinion is an important source of assurance. It is issued in accordance with professional standards and is independent, so a modified opinion does provide less assurance. However, the audit report should highlight causes of concern to you. Auditors are also recommended to issue recommendations at an early stage, so if they find weaknesses in your financial systems, they must highlight these to you.

You will also have other sources of assurance:

- Has internal audit provided assurance over financial systems?
- Does the organisation comply with CIPFA's Financial Management Code?
- What assurance does the CFO provide in the narrative report?

If there are areas of concern, ask how these are being addressed.

What about the annual governance statement (AGS)?

The AGS must follow the same timetable as the financial statements and so must be published by the backstop date. This should still be a key source of assurance to you on the strength of your internal control arrangements.

Ask about the assurance that underpins it and if it contains any actions to improve internal control.

What about the auditors work on value for money? Will we still receive a report from them?

Yes, auditors must still consider the authority's arrangements for value for money and report their conclusions to the authority. Reporting may be slightly changed during the backstop period, but this source of assurance will still be in place.

Given this is a national problem, what is being done to sort it out? Who is being held to account?

Nationally, the Public Accounts Committee is monitoring the situation and has already issued reports. They hold MHCLG to account and have heard evidence from FRC, PSAA, the National Audit Office, CIPFA, the LGA, and local audit firms.

The FRC will monitor the work of audit firms as part of their audit quality role. They may censure firms who are not working appropriately to restore assurance and a return to normal.

The system partners are also taking steps to reform the local audit system. CIPFA has developed its Diploma in Local Audit to support the training of auditors in local audit. Other work is underway by the FRC as system leader to encourage firms to expand their local audit workforce and address the shortfall in auditors. CIPFA is also working to help ensure there is no return to the backlog. We have also established the Better Reporting Group to recommend practical measures that improve the value of local authority accounts to users.

MHCLG will also be monitoring whether both audit firms and authorities meet the backstop requirements and will publish any concerns. They have indicated they will post a list of any authorities that have not complied with these backstops, and which are not eligible for the limited list of exemptions.

What implications does this have for our authority?

While finance teams are working on the statements and liaising with auditors, their resources aren't available for other work such as budget preparations and working with service teams, so this issue needs to be resolved for everyone's benefit.

Until the backlog of financial statements is resolved and recovery achieved, there will be an additional draw on the finance team's resources, and expected assurance from the financial statements will not be in place.

Accessing training and networking opportunities

CIPFA would encourage audit committee members to access any available training and networking opportunities. Regional forums for audit committee chairs have been established with assistance from the Local Government Association (LGA) and Welsh Local Government Association (WLGA), and each of these is running a programme of meetings and training events. CIPFA has been happy to speak at a number of these sessions already, and we will support where we can.

CIPFA's training webinars are listed below, and in-house training delivered locally or by webinar is also available.

Webinars and training for audit committee members from CIPFA

Introduction to the knowledge and skills of the audit committee

The role and responsibilities of the audit committee and key aspects of the terms of reference.

Understanding local authority accounts for councillors

A webinar to support the review of the financial statements.

Update for police audit committee members

This webinar is suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables.

Update for local authority audit committee members

Full programme details and booking information for webinars will be [available on the CIPFA website](#). Webinars are usually published about eight weeks in advance, but enquiries can be sent to customerservices@cipfa.org at any time.

In-house training for your audit committee

In-house training, webinars and guidance tailored to your needs are available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- Internal audit standards and the governance of internal audit (Code)
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements

- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

Assessing the effectiveness of the audit committee

We can also undertake an effectiveness review of the committee, providing feedback on areas the committee can improve on and supporting the development of an action plan.


For further information, email diana.melville@cipfa.org or visit the CIPFA website for [further details on our support for audit committees](#).

Previous issues of Audit Committee Update

Subscribing organisations can download all the previous issues from the [CIPFA Better Governance Forum](#) website. Click on the links below to find what you need.

Principal content	Link
Please note the content from some earlier issues has been replaced by more recent issues and so they are not listed below.	
Issues from 2012	
Commissioning, procurement and contracting risks	Issue 8
Reviewing assurance over value for money	Issue 9
Issues from 2015	
What makes a good audit committee chair?	Issue 16
The audit committee role in reviewing the financial statements	Issue 17
Issues from 2016	
Delivering good governance in local government: framework (2016), appointing local auditors	Issue 19
CIPFA survey on audit committees (2016)	Issue 20
The audit committee and internal audit quality	Issue 21
Issues from 2017	
Developing an effective annual governance statement	Issue 22
Issues from 2018	
Developing an effective annual governance statement	Issue 25
Issues from 2019	
Focus on local audit, National Audit Office report on local authority governance	Issue 27
The audit committee role in supporting counter fraud and anti-corruption	Issue 28
CIPFA statement on the role of the head of internal audit, external audit arrangements for English local government bodies	Issue 29
Issues from 2020	
CIPFA Financial Management Code, responding to the Redmond Review: results of CIPFA's survey on audit committees	Issue 30

Compendium edition: reviewing the audit plan, self-assessment and improving effectiveness, developing an effective annual governance statement and focus on local audit	Issue 31
The head of internal audit annual opinion for 2020/21, the Redmond Review: issues for English audit committees	Issue 33
Issues from 2021	
The annual governance statement for 2020/21, local auditors and internal audit working together	Issue 34
Supporting improvements to risk management arrangements, defining the relationship between the audit committee and the scrutiny function, new consultation on local audit and audit committee arrangements	Issue 35
Issues from 2022	
New CIPFA guidance on audit committees in local authorities and police, Internal audit: untapped potential	Issue 36
Issues from 2023	
Assessing audit committee effectiveness	Issue 37
Financial risk and the audit committee, the audit committee role in internal audit standards	Issue 38
Issues from 2024	
Assurance and the audit committee	Issue 39
Oversight and support of internal audit – the role of the audit committee	Issue 40



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