



# External Audit Progress Report

## Gedling Borough Council

September 2025

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Backstop update

# Backstop update

## Background

The statutory backstop established a date in legislation by which local authorities were required to publish their financial statements irrespective of whether their external auditor had obtained sufficient appropriate audit evidence to issue a non-disclaimed audit opinion. The introduction of the backstop led to many local authority audits being disclaimed. Gedling Borough Council received disclaimed audit opinions on the 2021/22, 2022/23 and 2023/24 financial statements. This disclaimed opinion included reference to the fraud that exposed IT control weaknesses over the financial ledger, adding complexity to the Council's position.

Audit suppliers have worked with the National Audit Office (NAO) and the Financial Reporting Council (FRC) to develop guidance to support local audit suppliers to rebuild assurance after previous audits have been disclaimed. In June 2025, the NAO issued its guidance to auditors on the special considerations for rebuilding assurance. The Local Audit Reset and Recovery Implementation Guidance (LARRIG) 06 was published with the endorsement of the Financial Reporting Council (FRC). The NAO issued its suite of LARRIGs to support auditors in meeting the requirements of the Government's backstop arrangements included in the Accounts and Audit (Amendment) Regulations 2024. LARRIG 06 makes clear the work required to rebuild assurance following a disclaimer of opinion may be significant and will vary between authorities.

The LARRIG emphasises the timely delivery of audited financial statements is a collective enterprise where both accounts preparers and auditors have important responsibilities. Effective governance and internal controls, allied to accurate and timely financial reporting, are essential conditions to support a return to the timely delivery of unqualified audited financial statements.

You can access the NAO's suite of LARRIGs here: [www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/](https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/)

## Rebuilding following a disclaimer of opinion

Under normal circumstances and following a financial year where the auditor has given an unmodified opinion on the financial statements, auditors would usually rely on assurance obtained in the prior period to be satisfied that the opening balances in the current year are free from material error. Following the completion of audit procedures on in-year transactions, the auditor would usually be able to form an opinion on the current year's financial statements.

When a disclaimer of opinion has been issued in the prior periods, no such assurance can be taken and the auditor must design alternative audit procedures to be able to form a position on the current year's financial statements.

## Risk assessment process

The guidance requires auditors to consider the facts and circumstances impacting the financial statements and the different classes of transactions and account balances, and to apply professional judgement in determining the appropriate level of audit work to rebuild assurance. In general, the greater the number of financial years subject to a disclaimed opinion, the greater risk of material misstatement that auditors need to address when determining the most appropriate way to rebuild assurance. Even in circumstances where only one year's financial statements have been subject to a disclaimed opinion, the inherent risk of material misstatement will inevitably be higher than would ordinarily be the case.

# Backstop update

LARRIG 06 places an emphasis on the risk assessment procedures auditors should undertake. We will conduct a comprehensive risk assessment which considers:

- the Council's system of internal control for the periods subject to disclaimed audit opinions; and
- a detailed assessment of the potential risks for each account balance.

## Initial risk assessment

Based on their local assessment of the level of risk, audit teams need to determine the most efficient approach to re-build assurance recognising the desire of all system partners to return to a position where audit suppliers can issue non-disclaimed audit opinions as soon as possible. In accordance with guidance set out in the LARRIG, this may require audit teams to depart from the approach to substantive audit testing they have adopted in previous years.

Possible options for substantive testing are set out in the LARRIG and can broadly be split between two approaches:

- **Proof in total approach:** the total reserves balances is deduced by undertaking procedures on the top-half of the balance sheet, and targeted substantive procedures are performed. Must be undertaken in one audit year.
- **Historic testing approach:** Full substantive tests of detail on transactions recognised in financial statements that received a disclaimed audit opinion. Assurance to be rebuilt over a number of years.

At this stage, we have undertaken our initial risk assessment and determined that the historic testing approach is appropriate for Gedling Borough Council. As a consequence, we are dependent on the development and agreement of what testing is required to rebuild by testing historic balances and whether this can be completed in time for local government reorganisation. This historic testing would need to include sufficient and appropriate over the IT control weaknesses exposed by the fraud.



# Backstop update

## Timeline and further reporting

As previously communicated to members, we will be issuing a disclaimed audit opinion on the Council's 2024/25 financial statements.

Going forward, given that the Council's initial risk assessment would require the audit of previously disclaimed years to rebuild assurance, it is unlikely that the Council will be able to return to an unqualified audit opinion before Local Government Reorganisation (LGR). In addition to the number of disclaimed years, the previously identified fraud perpetrated against the Council may impact the integrity of financial data during some or all of those disclaimed periods.

The implications for post-LGR unitary authorities has yet to be determined by system leaders, who may require additional work to be performed to partially rebuild assurance. We will keep members informed of any developments when we receive further guidance. We anticipate being able to present our Audit Strategy Memorandum to members in early 2026.

It should be noted that there is no impact on our VFM reporting, which is detailed further on the following page.

## Implications for audit fees

PSAA have yet to determine the impact of the auditor's procedures for rebuilding assurance on the scale audit fee for 2024/25 and beyond. It will deal with this through its scale fee variation approval process. We will be transparent in communicating with the Section 151 officer any additional or reduced audit costs arising from our work on rebuilding assurance and will update the Committee in due course.

Value for money arrangements

# Value for money arrangements

## Value for money 2024/25 progress

The NAO's revised Code of Audit Practice from 2024/25, requires auditors to issue their Auditor's Annual Report, which includes commentary on the Council's Value for Money arrangements, by 30 November each year.

We are currently carrying out our fieldwork and plan to complete our work on the VFM arrangements and submit our draft report to management in advance of 30 November 2025.



# Contact

## Forvis Mazars

**Mark Surridge**

Partner

[Mark.Surridge@mazars.co.uk](mailto:Mark.Surridge@mazars.co.uk)

**Jennie Norman**

Manager

[Jennifer.Norman@mazars.co.uk](mailto:Jennifer.Norman@mazars.co.uk)

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