Financial Reporting Council

Local Audit Backlog Rebuilding Assurance

Accessible Guide

September 2024

1. Timely, high-quality financial reporting and audit is vital for supporting decision-making and accountability of local bodies. This external assurance gives local taxpayers and elected representatives confidence in the financial management of their local body.

2. The backlog in the publication of audited accounts of local bodies in England has grown to an unacceptable level, peaking on 30 September 2023 at 918. Without decisive action, the backlog risks rising to over a thousand.

3. On 9 September 2024, the Government laid in Parliament a Statutory Instrument, 'The Accounts and Audit (Amendment) Regulations 2024', to introduce backstop dates by which point local bodies must publish audited accounts. The Government, on behalf of the Comptroller and Auditor General (C&AG) has also laid a revised 'Code of Audit Practice 2024', that requires auditors to give their opinion in time to enable local bodies to comply with the backstop date. The measures have been developed collaboratively by all organisations involved in the regulation and oversight of local body financial reporting and audit ('system partners') to clear the backlog of outstanding historical audit opinions.

4. This briefing explains how the Recovery period may operate in practice for bodies that receive modified or disclaimed audit opinions primarily as a result of statutorily imposed backstop dates limiting the scope of the audit so that finance teams in local bodies, elected members and other interested parties can understand what the recovery process may look like in practice.

Measures to clear the backlog

5. The Government's approach to clear the backlog of local audits and embed timely audit consists of two parts:

   - **Reset measures** involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 13 December 2024.

   - **Recovery period** after the Reset Measures that reduces the likelihood of the backlog re-emerging by using backstop dates to allow assurance to be rebuilt over one or more audit cycles.

6. Alongside the backlog measures, the Government has announced its intention to 'overhaul the local audit system', with a further update on these plans in Autumn 2024.

7. As set out in the in the Written Ministerial Statement published on 30 July 2024, 'Local Audit Backlog', the Reset measures could result in hundreds of disclaimed audit opinions being issued and that some may continue for a number of years.

8. The overarching objective of the proposals is to clear the backlog and reduce the likelihood of it returning. The Recovery period is designed to allow auditors to recover from the modified or disclaimed opinions anticipated from the Reset measures in a way that does not cause timeliness issues to recur. This is achieved by using backstop dates to enable auditors

to rebuild assurance over multiple years rather than needing to perform all this work in a single year.

9. To help auditors meet the requirements of the forthcoming legislation and revised Code of Audit Practice, the National Audit Office (NAO) has published a package of Local Authority Reset and Recovery Implementation Guidance (LARRIGs). These have been prepared by the NAO, working with the FRC, in consultation with audit firms and are endorsed by the FRC.

10. The Written Ministerial Statement sets out that the Government and local audit system partners have an aspiration that the local audit system recovers as quickly as possible. This means disclaimed opinions driven by backstop dates should, in most cases, be limited to the next two years (up to and including the 2024/25 backstop date of 27 February 2026).

11. Recovery from the backlog is a shared endeavour between auditors and local bodies. Accounts preparers have a vital part to play, providing good quality draft financial statements supported by comprehensive working papers and supporting evidence to auditors. The success of these proposals relies on both auditors and accounts preparers working closely together to agree jointly-owned delivery plans for each year's audit. Chartered Institute of Public Finance and Accountancy (CIPFA) are responsible for the production of guidance to support accounts preparers. Audit Committees should ensure that they are planning and able to play their full part in the process.

12. The Code of Audit Practice requires auditors to carry out full scope audit of Value for Money (VFM) arrangements for 2023/24 onwards. From 2024/25 onwards, auditors will be required to issue their annual auditor's report containing the VFM commentary each year by 30 November. This has been designed to ensure that, even where the financial audit opinion is disclaimed, the audit still provides useful information to audit committees and other stakeholders about the financial management and financial sustainability of local bodies.

13. The requirement for auditors to report any significant weaknesses in VFM arrangements that they identify remains. The temporary changes introduced during Covid-19 to enable auditors to report significant weaknesses in VFM arrangements in the audit certificate or the audit opinion will remain until 2023/24. For 2024/25 auditors must report significant weaknesses in VFM arrangements in the audit opinion.

Introduction to the financial statements and the audit

14. A local body's financial statements include the following (in addition to explanatory disclosure notes):

- the opening balances brought forward from the prior year which includes cash, general fund and ringfenced reserves, and the property valuation at the start of the year;
- the closing balances which include cash, general and ringfenced (e.g. Housing Revenue Account) fund reserves and the property valuation at the end of the year;
- the in-year expenditure, income, reserves, and cash flow movements; and

- the comparative figures from the prior year.

15. The objective of the auditor is to obtain sufficient evidence to conclude that they have reasonable assurance that the financial statements as a whole are free from material misstatement. Where an auditor is unable to gain enough evidence or is unable to reach this conclusion based on the evidence gathered, they are required to issue a modified opinion. Auditors will disclaim their opinion where they lack the evidence to support an opinion.

16. The following table shows the types of modified opinion that auditors can issue:

	Material but not pervasive	Material and pervasive
Financial statements are materially misstated	Qualified	Adverse
Auditor is unable to obtain sufficient evidence to conclude on whether the financial statements are materially misstated	Qualified	Disclaimer

In an audit following an unmodified opinion

17. In an audit following an unmodified, or 'clean', opinion, the auditor normally relies on the prior year audit for reasonable assurance over:

- the opening balances brought forward from the prior year (the prior year's audited closing balance); and
- the comparative figures.

18. Therefore, during an audit following an unmodified opinion, the auditor performs testing to obtain reasonable assurance over:

- The closing balances such as cash, general fund reserves and the property valuation at the end of the year being audited; and
- The in-year expenditure, income, reserves and cash flow movements.

In an audit following a disclaimer

19. In an audit following a disclaimer, the auditor will not have assurance over:

- the opening balances brought forward from the prior year; and
- the comparative figures.

20. It is also unlikely that the auditor will be able to obtain sufficient evidence to conclude they have reasonable assurance over the in-year income, expenditure, cash flow and reserves

movements without assurance over the opening balances. To use a very simple example: if a body has £100 at the end of the year but the auditor does not know whether the body had £50 or £10 at the start of the year, the auditor will not know whether the body has gained £50 or £90 during the year.

Rebuilding assurance

21. In normal circumstances, where a disclaimer is issued, an auditor would effectively have to perform work to assure all the opening balances and prior year comparatives in a single year. The Recovery period has been designed to allow auditors to rebuild assurance for balances related to 2022/23 or earlier over multiple audit cycles, reducing the risk of the backlog recurring. Because auditors will need to make prioritisation decisions to issue audit opinions ahead of the backstop dates, they may not be able to obtain evidence to support all balances nor all in-year and comparative expenditure, income, cash flow and reserves movements.

22. The knock-on impact of the auditor not having assurance over in-year movements (see Paragraph 10) means they will also not have assurance over those figures when they are shown as comparatives in the following year.

23. We anticipate that many bodies that received disclaimers in 2022/23 will follow a similar cycle to that shown in the table below. However, this depends on individual circumstances and it may take longer for auditors to rebuild assurance on some bodies, especially those with underlying weaknesses in financial reporting.

Audit Year	Opinion	Reason
2023/24	Disclaimer	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. 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. The auditor judges the lack of evidence over these movements and balances means they cannot conclude that the accounts are free from material and pervasive misstatement of the financial statements. Therefore, they disclaim their audit opinion.
2024/25	Disclaimer	The auditor has obtained sufficient evidence to have assurance over closing balances in 2024/25.

		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. The auditor judges the lack of evidence over these movements and balances means they cannot conclude that the accounts are free from material and pervasive misstatement of the financial statements. Therefore, they disclaim their audit opinion.
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	Unmodified	The auditor has assurance over opening balances, closing balances, in-year movements and prior year comparatives. The auditor can therefore issue an unmodified opinion.

24. As set out in the Written Ministerial Statement, the aspiration of all local audit system partners including the Government is that disclaimed opinions driven by backstop dates should, in most cases, be limited to the next two years (up to and including the 2024/25 backstop date of 27 February 2026). Auditors and audited bodies should work together to agree jointly-owned delivery plans for each year's audit to enable this.

25. Noting this aspiration, there may be some bodies where the process to rebuild assurance starts from the 2024/25 audit cycle such as bodies with unmodified opinions in 2022/23 but that receive modified or disclaimed opinions in 2023/24 due to the time constraints imposed by the 2023/24 backstop.

Potential audit approaches

26. Audit firms will need to design their own approaches which may differ between individual firms and audited bodies. Relevant factors include the:

- Audit opinion for 2022/23 and earlier years.
- Nature and complexity of the audited bodies' transaction streams and balances.
- The auditor's previous experience of the audited body.

- Ability of the audited body to provide high quality audit evidence.
- Firm-wide audit methodology.

27. When designing approaches to rebuild assurance over multiple years, auditors will need to decide which balances to prioritise each year so as to deliver the optimal pathway to returning, as soon as possible, to a position where they are able to complete audits in full and the opinion is not influenced by backstop dates. One potential audit approach would be for an auditor to prioritise obtaining assurance over all year-end balances as quickly as possible.

28. For some balances, which are cumulative in nature, auditors may need assurance over the opening position to conclude on the closing position. An example is the usable reserves, where the closing position equals the opening balance plus the net movements in year. This means they may perform testing on income, expenditure, capital additions and other reserve movements (such as minimum revenue provision) from 2022/23 and other earlier years subject to a disclaimed audit opinion.

29. The testing may be slightly different from normal as the auditors may need slightly different evidence to conclude that they have reasonable assurance over the closing balances.

30. It is anticipated that auditors will also seek to test the opening 2023/24 cash balances because of the intrinsic importance of cash to the financial statements. For certain other balances, the auditor should not need assurance over the opening balances to conclude on the closing position (e.g. short-term trade creditors).

The auditor's opinion

31. The nature of the audit opinion in each financial audit cycle will depend on the professional judgement of the auditor, and the evidence available to support the opinion given. The auditor is required to disclaim their opinion if they are unable to gather sufficient evidence to conclude whether the financial statements are free from material misstatement (error).

32. A disclaimer of opinion does not mean that the auditor has not carried out any work. Even where an auditor has disclaimed or modified their opinion, an auditor may consider if they can assure individual balances or classes of transactions to support rebuilding assurance on a timely basis.

33. Key to the success of this plan is effective communication between the auditor and the audited body, including its audit committee. Auditors should set out their assessment of risks and planned programme of work. Interim progress reports should highlight the work that has been performed, any key findings so far and to manage expectations on the likely opinion. Auditors have a responsibility under the standards to communicate any significant weaknesses in internal control.

34. Auditors have a responsibility under auditing standards to clearly communicate the reasons for modified or disclaimed audit opinions in the auditor's report, and communications with

the audit committee. This includes making it clear where the modified or disclaimed opinion has been caused by the statutory backstop dates. Local bodies should not be unfairly judged for modified or disclaimed opinions that are beyond their control.

35. The measures have been designed to enable any limitation of scope of the audit to be caused by the system-imposed backstop and not by the actions of management, as the latter may lead to significant consequences for a local body. In circumstances where the local body has significantly delayed the publication of their statement of accounts or withheld audit evidence, the auditor may use their judgement determine that management's failure to meet the backstop date represents a management-imposed limitation of scope.

Summary

36. The Statutory Instrument laid in Parliament to introduce backstop dates for the publication of audited accounts alongside the revised Code of Audit Practice from the NAO will clear the backlog of outstanding audit opinions and reduce the likelihood of it returning.

37. The Government's Written Ministerial Statement set out that the Reset measures could result in hundreds of disclaimed audit opinions being issued and that some may continue for a number of years. Auditors have a responsibility to clearly communicate the reasons for modified or disclaimed audit opinions, including where it is caused by the backstop dates. Local bodies should not be unfairly judged for modified or disclaimed opinions beyond their control.

38. The proposals have been designed to allow auditors to rebuild assurance after a modified or disclaimed opinion over multiple years so that the backlog does not recur. Auditors will need to make prioritisation decisions to issue audit opinions ahead of backstop dates and, as a result, they may not be able to obtain evidence over all balances. This means that it could take several years for modified or disclaimed opinions to be lifted.

39. The aspiration of the Government and local audit system partners, as set out in the Written Ministerial Statement, is that disclaimed opinions driven by backstop dates should, in most cases, be limited to the next two years (up to and including the 2024/25 backstop date of 27 February 2026).

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