Financial Reporting Council

Local Audit Backlog Disclaimed Opinions

Accessible Guide

November 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. 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. These regulations came into effect on 30 September 2024.

3. 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 revised Code took effect on 14 November 2024.

4. 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.

5. This briefing explains how these measures will lead to some local bodies receiving modified or disclaimed audit opinions and what these types of audit opinion mean.

Measures to clear the backlog

6. The Government's approach to clearing the backlog of local audits and embedding 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.

7. Alongside the backlog measures, the Government has announced its intention to 'overhaul the local audit system', and to update further on these plans during Autumn 2024.

8. As set out in the Written Ministerial Statement published on 30 July 2024, 'Local Audit Backlog', these measures will result in modified or disclaimed opinions. The Statement sets 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.

9. The overarching objective of the proposals is to clear the backlog and enable the system to recover. 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.

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).

Audit opinions

11. The objective of the auditor when undertaking an audit is to obtain sufficient evidence to conclude that they have reasonable assurance that the financial statements as a whole are free from material misstatement.

12. The time constraints resulting from the statutory backstop dates may mean auditors issue a modified or disclaimed audit opinion where they are unable to acquire sufficient appropriate audit evidence to opine on the financial statements before these dates. Local bodies should not be unfairly blamed for disclaimed opinions caused by the backstop dates as these are likely to be largely beyond their control.

13. 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

14. **Disclaimed opinion:** an auditor may ‘disclaim’ their opinion where they have been unable to obtain sufficient, appropriate audit evidence on which to base an opinion, and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. Disclaimed opinions are anticipated to be the most common type of modified opinion issued by local auditors due to the need to meet the backstop dates.

15. **Qualified opinion:** an auditor may ‘qualify’ their opinion where they conclude they have been unable to obtain sufficient, appropriate audit evidence (scope limitation) or that the financial statements are materially misstated, but the misstatements or scope limitation is limited to a specific set of balances, transactions, or disclosures. The auditor’s qualification only applies to these items, and that they have concluded that the financial statements are otherwise true and fair.

16. **Adverse opinion:** an auditor may give an ‘adverse’ opinion where they conclude that, on the basis of sufficient, appropriate evidence, that material and pervasive misstatements exist that undermine the reliability of the financial statements as a whole.

Communicating the basis for audit opinions

17. 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.

18. The measures have been designed to enable any modified or disclaimed opinions 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 its statement of accounts or withheld audit evidence, the auditor may use their judgement to determine that this represents a management-imposed limitation of scope.

19. A disclaimer of opinion does not mean that the auditor has not carried out any work. Even where an auditor has disclaimed their opinion due to the backstop date, an auditor may consider if they can assure individual balances or classes of transactions to support the subsequent rebuilding of assurance.

20. More broadly, local audit system partners are committed to continued communications and engagement on these measures, including to make clear the necessity of these steps and emphasise the context for disclaimed opinions.

Wider assurance work by auditors

21. The National Audit Office's 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.

22. 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 local bodies' financial management.

23. 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 2022/23. For 2023/24 auditors must report significant weaknesses in VFM arrangements in the audit opinion.

Financial Reporting Council

Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

+44 (0)20 7492 2300

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