



Ministry of Housing,
Communities &
Local Government

Policy paper

Addressing the local audit backlog: modified or disclaimed audit opinions

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Applies to England

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Introduction

The government, working closely with partner organisations, has implemented measures because of a large backlog in relation to local audit in England. One consequence is that many local bodies will receive modified or disclaimed audit opinions due to circumstances largely outside of their control and where these do not signify issues in their financial accounts. This document explains the context for these opinions to help ensure that local bodies are not unfairly judged.

Background

Local authorities and other local bodies, including police, fire, transport and waste authorities, as well as national parks, provide vital public services to local communities.

These bodies publish accounts for each financial year. The external auditing of these accounts ensures transparency and accountability for public money spent on these services, and builds public confidence.

In recent years, however, there has been a growing backlog of unaudited accounts. For financial year (FY) 2022/23, just one percent of councils and other local bodies published their audited accounts on time.

Measures to tackle the backlog

Since being elected in July, the government, together with key local audit system partners, has taken decisive action to tackle the backlog. This includes setting a statutory backstop date of 13 December 2024 for the publication of audited accounts for Financial Years (FYs) up to and including 2022/23, as well as further backstops for FYs 2023/24 to 2027/28 to enable the audit system to recover. This approach will enable auditors to focus on more up-to-date accounts, where assurance is most valuable.

Aspects of the measures are uncomfortable, particularly the prospect of disclaimed or modified opinions (explained further below). Given the scale of the backlog, however, and the absence of viable alternatives, the government made the difficult decision to proceed.

Without these measures, audits would continue to be delayed, and the local audit system would move further away from timely, effective audit, with

significant additional cost to the taxpayer. The measures are supported by all key local audit system partners.

The backlog is an immediate priority, but the government also fully recognises the need to address underlying systemic issues and will update Parliament shortly on its longer-term plans to fix local audit.

Modified or disclaimed audit opinions

The key objective of an audit is to obtain sufficient evidence to conclude that the auditor has reasonable assurance that the financial statements as a whole are free from material misstatement. Where this is feasible, auditors issue an unmodified (or 'clean') audit opinion to the body. Otherwise, auditors may issue a modified opinion, including a disclaimed opinion if they are unable to provide substantive assurance or a qualified opinion if they are able to provide assurance on parts of the accounts. These opinions are relatively uncommon.

The statutory backstop dates, however, will create conditions under which significant numbers of modified or disclaimed opinions are issued. Specifically, the time constraints of the backstops may mean that auditors are unable to obtain sufficient appropriate audit evidence to state, in their opinion, whether the financial statements are properly put together and free from material error.

Auditors are expected to issue hundreds of disclaimed opinions by the first backstop date of 13 December 2024, and these will likely continue for some bodies for a number of years. It is the aspiration of the government and key local audit system partners that disclaimed opinions driven by backstop dates should, in most cases, be limited to the next two years (up to and including the FY 2024/25 backstop date of 27 February 2026).

The government is clear that, where the backstop dates result in modified or disclaimed opinions, local bodies should not be unfairly judged. Auditing standards require auditors to clearly explain the basis of their opinion in their auditor's report – they should distinguish between disclaimed or modified opinions caused by the backstop date and those caused by other factors such as weaknesses in financial reporting or specific material issues in the accounts. This explanation from the auditor should be included as part of the statement of accounts published by a local body on its website by the relevant backstop date.

While the backlog measures will result in modified or disclaimed audit opinions, auditors' other statutory duties – including to report on Value for Money (VfM) arrangements, to make statutory recommendations and issue

Public Interest Reports – remain a high priority. We also expect local bodies to fully engage with audit work in these areas. It is also the case that, irrespective of the audit process, local bodies should have arrangements in place for accurate and timely financial reporting as part of their internal system control.

Finally, the government recognises the potential relevance of disclaimed or modified opinions to authorities' ability to borrow from private lending markets and to credit ratings. The government's expectation is that private lenders and ratings agencies would factor in the exceptional context and consider their approach on a case-by-case basis.

Further information on the backlog measures and audit opinions

A [Written Ministerial Statement \(https://questions-statements.parliament.uk/written-statements/detail/2024-07-30/hcws46\)](https://questions-statements.parliament.uk/written-statements/detail/2024-07-30/hcws46) on the local audit backlog issued by the government on 30 July 2024.

[Government's response to feedback received on the Addressing the Local Audit Backlog in England consultation \(https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation/local-audit-delays-joint-statement-on-update-to-proposals-to-clear-the-backlog-and-embed-timely-audit\)](https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation/local-audit-delays-joint-statement-on-update-to-proposals-to-clear-the-backlog-and-embed-timely-audit) (the consultation ran between 8 February and 7 March 2024).

The [Accounts and Audit \(Amendment\) Regulations 2024 \(https://www.legislation.gov.uk/uksi/2024/907/contents/made\)](https://www.legislation.gov.uk/uksi/2024/907/contents/made) (note, these came into force on 30 September 2024).

[The Comptroller & Auditor General's Code of Audit Practice 2024 \(https://www.nao.org.uk/code-audit-practice/\)](https://www.nao.org.uk/code-audit-practice/)

[National Audit Office Guidance \(https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/\)](https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/) (endorsed by the Financial Reporting Council) on Implementing the Reset and Recovery of Local Audit in England

The Chartered Institute of Public Finance & Accountancy's [Bulletin on the Local Audit Backlog in England \(https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-18-local-audit-backlog-in-england\)](https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-18-local-audit-backlog-in-england)

The Financial Reporting Council's [Accessible Explainer on Rebuilding Assurance](#)

https://media.frc.org.uk/documents/Local_Audit_Backlog_Rebuilding_Assurance.pdf
f) (following modified or disclaimed audit opinions)(PDF, 212KB)

The Financial Reporting Council's [Accessible Explainer on Disclaimed Opinions](#)

https://media.frc.org.uk/documents/Local_Audit_Backlog_Disclaimed_Opinions.pdf
(PDF, 140KB)

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