

After the backstop

Reset, recovery, and reform in the audit of local authority accounts

2025



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Executive summary

A sustainable future for local audit



Following the significant milestone of backstop legislation in September 2024, the backlog of unissued accounts has fallen dramatically. The challenge now is to rebuild assurance and secure a sustainable future for the system of local accounts production and audit. The reforms set out in the English Devolution and Community Empowerment Bill are essential to restoring trust and accountability to the local audit system.

In our March 2023 publication ‘About time?’ we explored the reasons for delayed publication of audited local authority accounts and set out our recommendations for key stakeholders in the local audit system. We noted some reasons for optimism that foundations were being laid for the future, including interim local audit system leadership arrangements, the award of new audit contracts, based upon more sustainable fees, and stability in the National Audit Office (NAO) Code of Audit Practice (CoAP). While welcoming these positive steps, we cautioned that they were not sufficient, as the backlog of audits had not been addressed and a sustainable future for local audit had still to be determined.

The backlog of unissued audit opinions peaked some months after our report at 918, on 30 September 2023. The Department for Levelling Up, Housing and Communities (DLUHC) and subsequently the Ministry of Housing, Communities and Local Government (MHCLG) conducted consultations on reset and reform in the local audit system, leading to secondary ‘backstop’ legislation¹ to clear the backlog. This was a necessary step, allowing auditors and authorities to focus on current periods of account, but it brought with it new challenges, as over 200 authorities received one or more audit disclaimers².

In December 2024 Public Sector Audit Appointments (PSAA) issued a press release on the local government audit opinion position following the first backstop date, noting an unprecedented number of disclaimed opinions, illustrating the scale of the challenges facing the sector and local audit. The NAO’s Whole of Government Accounts (WGA) opinion for 2022/23 had been disclaimed in November 2024, for the first time ever, as a direct consequence of the severe backlog in English local authority audits.

The English Devolution and Community Empowerment Bill (the ‘Bill’) is currently making its way through the parliamentary process. It sets out proposed reforms to local audit which we consider are essential in restoring trust and accountability to what has become a broken system.

We believe it is important to acknowledge the audit profession must take some responsibility. Following the abolition of the Audit Commission, work was procured by appointing bodies at fees which were too low, and audit work was concentrated amongst too few firms. Some of these firms did not invest sufficiently in local audit and did not have the resources to complete the work required. At the same time, regulators were requiring additional audit work.

Unfortunately, in the absence of a systems leader which truly understood the challenges and risks facing local authorities, regulation became something of a blunt instrument, focussed on areas such as the valuation of operational land and buildings and long-term pension liabilities, rather than on wider issues of financial performance and governance.

Whilst the audit profession needs to learn from the failures of recent years, so too does local government. Failed investments, poorly managed risks and a disregard for the proper stewardship of public money have, unfortunately, become far too common. Many authorities have not invested properly to secure the capacity and capability to comply with their statutory financial reporting obligations. Grant Thornton has issued five Reports in the Public Interest in recent years, as well as over twenty-five reports making Statutory Recommendations³ in the last four years. Section 114⁴ Notices, almost unprecedented until 2018, are now part of common parlance.

1 The Accounts and Audit (Amendment) Regulations 2024 SI No 907

2 See Appendix – Types of auditor report

3 A Statutory Recommendation requires consideration at a public meeting within one month and requires a published written response

4 s114 of the Local Government and Finance Act 1988 (see Glossary)

Against this backdrop, we consider the proposals in the Bill, which draw on the findings of Sir Tony Redmond's 2020 review, are sensible, proportionate and much needed. We understand the Local Audit Office (LAO) is planned to be established in shadow form before becoming fully operational, potentially from April 2027. There are many challenges facing local authorities and local audit and a lot to be done. In our view, the following are critical:

Quality and timeliness of audit reporting

The local authority backstop has largely been successful in dealing with the backlog of local authority opinions. Auditors are now issuing reports on an annual basis. However, over half of the reports issued for 2023/24 were disclaimed as the auditor was unable to obtain sufficient assurance by the backstop date. This in turn led to a disclaimer of the WGA.

Work to rebuild assurance is underway, but this is difficult and unprecedented territory for audit firms. The challenges around accounting for and auditing local authority reserves make it especially so. Auditors will need help in regaining assurance, for example through guidance, sharing of best practice and effective systems leadership. More radical solutions, such as determination of balances by statutory provision, may be required in some instances where the passage of time and the inadequacy of accounting records means there are no viable alternatives.

Application of auditing standards to local audit

As highlighted above, in recent years, following changes in the requirements of the International Standards on Auditing (ISAs) and feedback from regulators, auditors significantly increased the extent of work on certain areas of the accounts, including on property and pension liability valuations. These are typically highly material areas of the accounts and the ISAs require sufficient audit coverage, however co-ordinated direction on applying the ISAs, which are often written with corporate entities in mind, in a local audit context has been lacking. We believe auditors should be enabled to focus their work on property valuations to pinpointed risks, such as investment properties, freeing time for additional work on procurement or contractual fraud risks which can have a much greater impact on an authority's revenue and capital transactions and hence on local taxpayers and other stakeholders.

Promoting higher quality financial reporting

Many authorities still struggle to prepare draft accounts of an appropriate quality on a timely basis. Until this is addressed, the problem of disclaimed auditor reports will continue. We believe there is a significant role for the LAO in helping authorities to address this through facilitating forums, preparing guidance and sharing best practice. Authorities should be supported to identify independent members to chair audit committees and this should be a paid role, to encourage suitable candidates.

Local government reorganisation will bring challenges, including data transfer, systems integration and establishing new structures and systems. It will also bring opportunities, as a smaller number of new authorities will allow expert resources to be better allocated and this opportunity must be seized or key resources will be lost to the sector through retirement or movement to the private sector.

It will be critical to maximise audit assurance over demising councils' accounts to avoid problematic assurance gaps over the opening balances of new unitary authorities.

Safeguarding audit quality

One of the LAO's key responsibilities will be the oversight of audit quality which in recent years has been undertaken by the Financial Reporting Council (FRC) and the Institute of Chartered Accountants in England and Wales (ICAEW).

It is vital that auditors deliver high quality audit work, and supervision and enforcement is a key role. The scope of local audit is much wider than commercial audit and we believe regulation should sit with specialists who understand the wider role of the local auditor, drawing on support from other bodies as required. Timely reporting should be a key criteria on which auditors are assessed and regulated.

We believe there needs to be more focus on the wider scope of local audit, including Value for Money (VfM) audit and the use of statutory powers. There needs to be renewed focus on timeliness of delivery, to meet the needs of local authority members and other stakeholders in terms of assurance on both the financial statements and arrangements to secure VfM.

Ultimately, the question should be whether each local audit supplier is providing meaningful and high-quality assurance across their audit portfolio, within the context of the CoAP, for the things which matter to stakeholders.

Sanctions against auditors should include the power to reprimand, and to require corrective action. We do not believe sanctions should include fining auditors, or the power to name individuals publicly. In our experience, the latter is counterproductive and discourages people from careers in local audit.

The Bill includes a proposal which would enable the public provision of local audit, through the LAO. We think this is a good

idea as it would enable an auditor of last resort and could also help address shortfalls in the wider market. Establishing a public audit practice would take time and there is a real risk of recruiting auditors from existing firms, destabilising private sector provision.

Simplification of local authority accounts

The WGA reporting framework necessitates an IFRS-based accounting Code for the local government sector. However, there are barriers which could be addressed to secure reform, including reducing the number of statutory accounting overrides which apply to the sector and realising meaningful change through CIPFA LASAAC's strategic plan to update the Code, improve the presentation of financial statements and ensure the accounts clearly communicate their key messages to users. The work of CIPFA LASAAC's Better Reporting Group will be key to reducing the reporting burden whilst meeting the information needs of users of local authority accounts with more clarity and in a more succinct manner. Tackling the shortage of suitably qualified and experienced finance professionals will also need attention.

In some areas, limited capacity has meant authorities have not tailored their accounts through the proper application of materiality, leading to overly long and cluttered accounts. Without additional resource, many finance teams will continue to replicate the approach taken previously, rather than focusing on what matters most.

Sir Tony Redmond recommended summarized, standardised, statements, and these remain an attractive proposition, but they should be kept separate from the statutory accounts and audited later.

What more can be done?

All key stakeholders in the local audit system will need to continue their efforts to secure a return to high levels of compliance with timely publication of accounts with unmodified audit opinions. We explore the challenges to establishing and maintaining a sustainable future for local audit in this report. Our recommendations to secure that sustainable future are as follows:

For the LAO

- R1.** To prepare a new local Audit Code which provides clear direction on how to apply international auditing standards in a local audit context and which reflects the wide remit of local public audit.
- R2.** To support authorities to prepare draft accounts which comply with the CIPFA Code, in line with statutory timetables, through facilitating collaboration, producing guidance and sharing best practice.
- R3.** To support authorities to identify appropriately experienced independent members to chair local government audit committees.
- R4.** To develop a rigorous approach to supervision and enforcement of audit quality, focused on all key aspects of the local auditors' responsibilities and undertaken by specialists who have a sound understanding of public audit.
- R5.** To establish a capable, credible public audit practice, working in partnership with the NAO and drawing on support from MHCLG and the audit firms.
- R6.** To develop effective horizon scanning arrangements, provide guidance and updates for auditors, maintain a sensitive issues register and provide regular reports to MHCLG on progress in discharging its system leadership remit.

For Government

- R7.** To support the local government sector secure sufficient qualified and experienced finance professionals to enable widespread and sustainable compliance with reporting requirements and timetables.
- R8.** To require statutory officers to attest to full Council, or the closest equivalent, on the effectiveness of their financial reporting process, in line with Sir Donald Brydon's recommendation for an annual attestation to boards of directors. This should form part of Government accounting requirements and non-compliance should result in intervention.
- R9.** To provide a mechanism to enable assurance to be rebuilt at all authorities, if necessary through the statutory determination of local authority balances.
- R10.** To step in and appoint commissioners where there is persistent failure by local authorities to prepare timely accounts in accordance with the CIPFA Code.
- R11.** To take steps to reduce the extent of statutory overrides which apply to the local government sector.
- R12.** To work with local government bodies to finalise exceptional financial support arrangements and capitalisation directions in a timely manner.

For local government bodies

- R13.** To focus on maintaining, or re-establishing, the basic foundations of effective core financial systems, reconciliations and timely publication of draft financial statements which comply with CIPFA's Code.
- R14.** Invest in, and keep under review, in-house financial reporting skills, paying close attention to succession planning and professional training, and collaborate with other authorities or commission independent support where additional capacity or expert advice is required.
- R15.** To ensure auditors are engaged at an early stage where innovative, complex or significant transactions are anticipated, to allow for effective planning of the additional audit work which may be required.
- R16.** To critically review statements of accounts focusing on reducing unnecessary disclosures and decluttering accounts, taking account of materiality considerations and the requirements of stakeholders.
- R17.** To ensure appropriate time has been scheduled to allow for robust internal quality assurance before the s151 officer certifies draft accounts.

For audit committees

- R18.** To recruit independent members with appropriate skills and experience.
- R19.** To hold management and auditors to account for preparing and monitoring delivery plans.
- R20.** To report to full Council, or the closest equivalent, on an annual basis with their assessment of the accounts preparation and audit process.

If the authority's previous accounts were disclaimed:

- R21.** To ensure the Committee understands the approach to be taken to rebuilding audit assurance.

If the authority is subject to Local Government Reorganisation:

- R22.** To ensure appropriate consideration is being given to future financial management arrangements.

For auditors

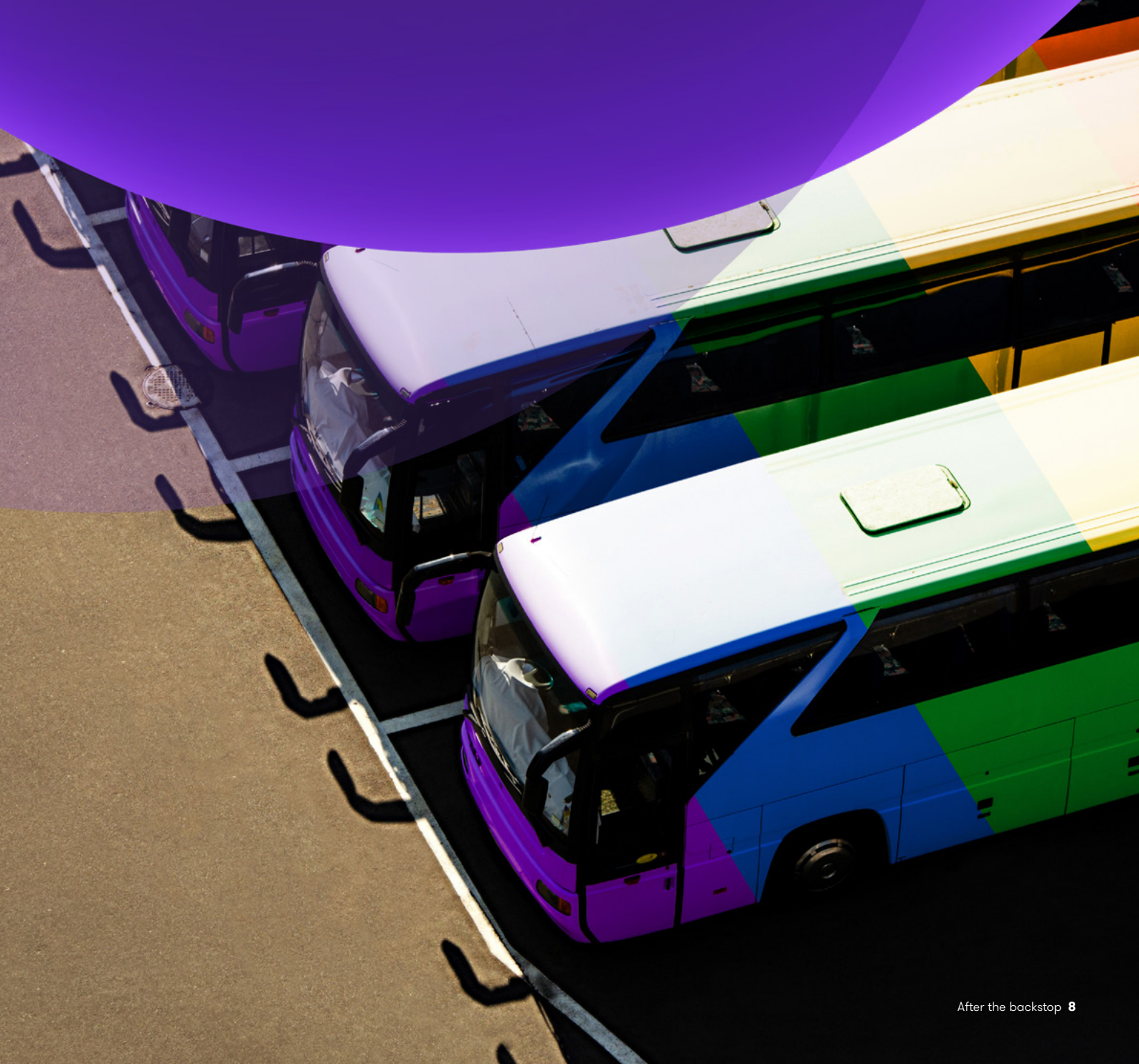
- R23.** To develop, pilot and roll-out risk-based approaches to rebuilding audit assurance following issue of audit disclaimers and to clearly communicate these to finance officers and audit committees.
- R24.** To escalate delays in the audit process to s151 officers, chief executives, audit committee chairs, the LAO and MHCLG as appropriate.
- R25.** To consider whether to issue statutory recommendations where significant failures in financial reporting or governance are identified, delays become unacceptable or where insufficient attention is paid to timely financial reporting.
- R26.** To focus on making local public audit a more attractive career choice and promote the value of public sector audit and the wider societal benefits of robust and independent scrutiny.
- R27.** To support the establishment and development of the LAO in a constructive and collaborative manner.

Introduction

In this report we explore the development and implementation of a 'reset' of the local audit system, the immediate and longer-term consequences of the 'backstop' before turning attention to the reform of the system, the challenges involved in returning to widespread and sustainable compliance with audit reporting timeframes and what, in our view, is needed next.

The English Devolution and Community Empowerment Bill paves the way for the creation of a long-awaited and much-needed systems leader for local audit, the Local Audit Office (LAO).

All key stakeholders including local audited bodies, the audit firms, the Ministry of Housing, Communities and Local Government (MHCLG), Public Sector Audit Appointments (PSAA), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Chartered Accountants in England and Wales (ICAEW) will need to support the successful establishment of the LAO to address the crisis in local public audit.



System reset – the backstop



In the first half of 2023 momentum was growing for action to be taken to tackle the backlog of local government audits, which had grown to over 500 unissued audit reports.

The DLUHC had been active at this time in leading work with auditors, s151 Officers, regulators, government departments and others to find a solution to reset the system of local audit.

The House of Commons LUHC Committee met in May, June and July 2023 as part of its inquiry into financial reporting and audit in local authorities.

Evidence submitted to the committee included a letter dated 14 July 2023 from the DLUHC Parliamentary Under-Secretary of State outlining the department's intention to set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed audits for the financial years from 2015/16 onwards. The letter noted that these deadlines might result in qualifications and disclaimers of opinion in the short term for a number of local bodies. The letter noted a broad consensus that, without action, delays would continue and that when delayed audits were ultimately concluded they would offer little, if any, assurance over the current position.

DLUHC noted that where auditors issued disclaimer of opinions, there would still be a need to audit the opening balances in the subsequent set of accounts, as the prior year figures wouldn't be covered by an auditor's opinion. The department indicated it would consider measures to ensure the burden of auditing opening balances didn't risk creating further delays.

At this time system partners had made various commitments to support a reset of the system of local audit. The NAO was exploring a replacement CoAP for the local government sector, to include a requirement on auditors to report for specific financial years in line with anticipated statutory deadlines, while retaining auditors' responsibility to report on local bodies' VfM arrangements. The Financial Reporting Council (FRC) signalled an intent not to conduct routine audit quality reviews and inspections of local government Major Local Audits (MLAs) for audits up to the end of the 2021/22 financial year and the ICAEW proposed a similar approach for non-MLAs.

DLUHC noted that it was essential that underlying issues which may have driven delays to local government audits be addressed to prevent a recurrence of the backlog. Work was planned with organisations including the FRC, NAO, CIPFA and the Local Government Association (LGA) to devise an approach for audit firms and local bodies to escalate and resolve issues ahead of statutory deadlines. The department was also exploring the publication of lists of local bodies and audit firms which meet statutory deadlines and those which didn't, as well as considering measures to improve competition, capability and supply within the audit market. The need for a sustainable local audit system, with proportionate financial reporting, auditing and regulatory requirements was also noted.

CIPFA started to explore changes to the Code of Practice on Local Authority Accounting (CIPFA Code) for the medium and long term, in parallel with the Treasury's thematic review of the valuation of non-investment assets across the public sector. DLUHC also proposed extending the legislative changes to reporting requirements for local authority infrastructure assets to allow further time for a long term solution to the challenges of accounting for this class of assets to be developed.

The LUHC Committee published its inquiry report in November 2023. The report emphasised the importance of independent audit, given English local authorities spend over £100 billion each year in delivering vital public services. It noted local audit, and indeed local government more widely, as being in the middle of a crisis and, unsurprisingly, that local authority accounts and audit weren't adequately fulfilling their role in supporting local democracy and accountability.

The committee's report set out a series of recommendations. Having heard from several stakeholders that the only way to address delays in the system was to reset the entire system it called upon DLUHC to address the backlog of unaudited accounts and take action to prevent similar backlogs from happening again. 'Backstop' dates for publishing audited local authority accounts on an annual basis going forward were called for as well as written explanations being provided to the department where audits couldn't be completed.

It commented that legislation to introduce a new systems leader for local audit had been delayed time and time again. The report stressed the need for a local audit system leader as a matter of priority, and in a different form to the proposed successor to the FRC, the Audit Reporting and Governance Authority, if necessary.



The report noted local authority accounts were vital tools for upholding local democracy and accountability but that there was a lack of a common understanding of what the accounts should be for, who their target audience is and how they're expected to be used. The report urged Government to ensure the purposes of local authority accounts are clearly set out in government policy. Having considered a variety of written and oral evidence the committee helpfully included its view on five key purposes of local authority accounts:



The Committee heard that at least a third of local authorities didn't purchase a copy of the CIPFA Code each year and that the cost of the Code made local government accounting requirements opaque to the general public.

Evidence provided to the committee also stressed that government legislation to override ordinary accounting practice introduced complexities into local authority accounts, some going so far as to say these made the accounts impenetrable. The report called for a review of existing legislation that places requirements on the content and format of local authority accounts.

The committee heard from stakeholders that local authority audits should also be able to function as an early warning system for their authorities, bringing attention to issues before they cause significant financial difficulties. It recommended that the department should work with the NAO and new system leader to introduce new guidance for auditors of local authorities to encourage them to make more proactive use of their existing powers to flag potential issues earlier in the audit process.

DLUHC published its response to the LUHC Committee's report in January 2024. This confirmed the department, supported by the FRC and NAO, would launch consultations on proposals including an initial backstop of 30 September 2024 for all outstanding local audits in England up to and including the financial year 2022/23.

DLUHC opened its consultation on 8 February 2024. The consultation noted the vital role of high-quality financial reporting and audit in our democratic system and the unacceptable level of the backlog in publication of audited accounts of local bodies in England. In addition to an initial backstop date of 30 September 2024, the department proposed five further backstop dates covering the financial years 2023/24 to 2027/28. The consultation acknowledged the multi-faceted and complex issues facing local audit and reflected a shared resolve among system partners to address the situation.

The DLUHC consultation proposed three phases: a ‘reset’ phase to clear the backlog of unaudited accounts up to and including financial year 2022/23; a ‘recovery’ phase during which additional backstop dates would allow assurance to be rebuilt over multiple audit cycles; and a ‘reform’ phase to address systemic challenges in the local audit system and embed timely financial reporting and audit.

As part of the ‘reset’ phase, local auditors would be required to issue an audit report based on the work they had been able to complete and local bodies would be required to publish accounts, together with the auditor’s report, ahead of the backstop dates. The auditor’s report might be unmodified, modified (qualified or adverse) or disclaimed⁵. System partners would provide clear communications explaining what the different types of audit report mean, including an explanation that a disclaimed opinion as a result of a backstop date didn’t necessarily indicate significant financial reporting or financial management issues at a local body. Auditors would still need to conclude and report on their VfM responsibilities ahead of the backstop date, as this legal duty couldn’t be disclaimed.

The proposals included publication of lists of local bodies and their auditors which don’t meet backstop dates. Exemptions to the backstop date would be limited to specific circumstances, for example where an open elector objection could be material to the auditor’s report.

To maintain compliance with the ISAs, following the issue of a modified or disclaimed audit report auditors would need to perform sufficient testing on historical figures that carry forward into the subsequent year as opening balances. In recognition of the fact that recovering assurance could involve significant additional work for preparers and auditors, the ‘recovery’ phase would involve five further backstop dates to avoid an exceptional workload in the first year following the ‘reset’, risking a recurrence of the backlog.

The ‘reform’ phase would address the systemic challenges that had led to the audit backlog, building on the recommendations of the Redmond Review⁶ and the LUHC Committee report into financial reporting and audit. Alongside the DLUHC proposals, CIPFA LASAAC would explore long-term reforms to financial reporting, based on the needs of accounts users and taking account of the Treasury’s thematic review into the valuation of non-investment assets. The FRC would publish a local audit workforce strategy, seeking to increase the supply of suitably skilled auditors.

A period of uncertainty as to whether, and when, the reset, recovery and reform proposals would be implemented followed when, in May 2024, a general election was called for 4 July 2024.

Following the election, the new minister of state for MHCLG acted quickly and released a statement on 30 July 2024 setting out proposals to address the audit backlog.

The minister’s statement noted that just one percent of councils and other local bodies published audited accounts on time in 2023 and emphasised this wasn’t acceptable, and couldn’t continue. The statement acknowledged the previous Government’s February 2024 consultation and the clear support from key stakeholders for the proposals made. The minister confirmed his intention to amend the Accounts and Audit Regulations 2015 to set a series of backstop dates, the first of which would be 13 December 2024 for financial years up to and including the 2022/23 financial year. A series of dates would follow, covering years up to and including 2027/28. The statement was clear that auditors’ other statutory duties, including reporting on VfM, making statutory recommendations and issuing Public Interest Reports remained a high priority. The intention to publish a list of bodies and auditors that don’t meet the proposed backstop dates was made clear and the need for significant reform to overhaul the local audit system recognised, with a commitment to update Parliament in the Autumn of 2024.

The minister also wrote to local authority chief executives, chief finance officers, leaders and audit partners to outline the backstop dates. The letter signalled a change in the date for publication of draft accounts each year, from 31 May to 30 June, to give accounts preparers more time to ensure accounts are of a high quality. The minister’s letter acknowledged that there could be several hundred disclaimed audit reports in the first phase of recovery and that the department would work with key stakeholders to support the wider world in understanding the different types of modified opinions. The minister set out an aspiration that disclaimed opinions driven by backstop dates should, in most cases, be limited to the period up to the 2024/25 backstop date of 27 February 2026, with only a small number of exceptional cases thereafter.

5 See Appendix – Types of auditor report – for more details

6 [Local authority financial reporting and external audit: independent review - GOV.UK](#)

Implementing the backstop



The backstop in legislation

After considerable consultation and anticipation, the ‘Accounts and Audit (Amendment) Regulations 2024 (SI 2024 No 907) formalised the backstop proposals that had been signalled in ministerial statements. The regulations were laid before Parliament on 9 September 2024 and came into effect on 30 September 2024.

The regulations required that where an authority hadn’t already published accounts for the financial year 2022/23, or earlier financial years, it had to do so by 13 December 2024.

If an authority couldn’t publish accounts, together with an auditor’s report, by the backstop date, the regulations required a notice to be published, stating the reasons for delay.

The regulations took account of possible delays due to auditors needing to exercise their statutory duties, such as considering an objection or applying to the court for a declaration, but where delays were caused by other reasons delay notices had to acknowledge the requirement to publish accounts as soon as reasonably practicable and be copied to the Secretary of State.

It commented that legislation to introduce a new systems leader for local audit had been delayed time and time again. The report stressed the need for a local audit system leader as a matter of priority, and in a different form to the proposed successor to the FRC, the Audit Reporting and Governance Authority, if necessary.

The regulations also set out backstop dates for the financial years 2023/24 to 2027/28 as follows:

Financial year	Backstop date
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

Implementing the backstop in practice

The period from early 2023 to September 2024 was a challenging time for auditors and local bodies as the direction of travel for the local audit system could clearly be seen, indeed we played an important part in developing the proposals for a series of statutory backstops, but new statutory provisions weren’t yet in place.

Under the legislation in place up to September 2024, auditors needed to determine how best to balance their time between progressing and closing old audits, as required by the extant framework, and progressing 2023/24 audits. Our approach was to prioritise closure of our VfM audits, issue unqualified financial statements opinions on old years where possible while forging ahead with 2023/24 audits. In our view this strategy was successful in minimising the occurrence of audit disclaimers when the new legislation came into force, maximising the assurance we were able to provide.

To comply with the 13 December 2024 backstop, bodies needed to have published all unaudited draft accounts by 31 October 2024 to allow the public inspection period to conclude by 12 December and auditors to report by 13 December 2024.

Auditors had a careful balancing act to achieve in late 2024 and sometimes difficult professional judgements were needed in making decisions on resource allocation.

This balancing act involved concluding 2022/23 and earlier audits which were on track to receive unmodified opinions, working with local bodies to ensure, wherever possible, the backstop regulations were complied with, where necessary issuing disclaimer reports by 13 December 2024 and, importantly, progressing 2023/24 audits to minimise the need for disclaimer reports ahead of the imminent second backstop date.

Compliance with backstop regulations

In July 2024, the Government had committed to publishing lists of bodies that didn't comply with the requirement to publish accounts, together with an auditor's report, by a backstop date. In March 2025, MHCLG published its first non-compliance lists, relating to the 13 December 2024 backstop date which covered financial years up to and including 2022/23.

MHCLG published two lists, one highlighting bodies which hadn't published one or more sets of accounts by the backstop, but had done so by 19 February 2025, and the second highlighting bodies which had still to publish accounts.

A total of 68 bodies (approximately 15%) failed to publish accounts together with an auditor's report by 13 December 2024. By 19 February, this number had reduced to 21 bodies (approximately 5%).

The ministerial statement published alongside the non-compliance list noted that nearly 400 disclaimer reports had been published, with around 200 (approximately 45%) of bodies publishing at least one disclaimed opinion following the introduction of the backstop regulations.

The department published further lists in July 2025, relating to compliance with the backstop for the 2023/24 financial year. In total, 87% of bodies published accounts for 2023/24 accompanied by an auditor's report by the backstop of 28 February 2025 and 50 bodies were listed as having failed to meet the backstop date without having a valid exemption. In our view, while the backstops are important milestones on the recovery journey, this level of compliance with the regulations is disappointing. In some instances, non-compliance was due to ongoing delays in authorities publishing draft accounts, in other cases as a result of delays in predecessor auditors issuing their reports on earlier years of account.

Consequences of applying the backstop

The ISAs⁷ require an auditor to disclaim an opinion when they're unable to obtain sufficient appropriate audit evidence on which to base an opinion, and in their view the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. In short, a disclaimed opinion means the auditor gives no opinion on the financial statements and a reader of the accounts has no external audit assurance.

Ordinarily, an auditor and local body would explore all possible routes to securing sufficient audit evidence to provide an opinion and avoid a disclaimer. Due to the unacceptable backlog of open audits, as discussed earlier in this report, the backstop regulations had the effect of imposing statutory dates by which auditors must report, and bring old audits to a close, whether or not sufficient audit evidence had been gathered.

The lack of external audit assurance indicated by a disclaimer is particularly problematic at a time when local government is facing severe financial and operational pressures. Local electors, taxpayers, local government officers and elected members, government and successor auditors are deprived of valuable information to allow for effective scrutiny and properly informed decisions to be taken.

Consequences for WGA

WGA consolidates the accounts of over 10,000 public sector bodies, including central and local government and public corporations, such as the Bank of England, to provide the most complete and accurate picture of the UK's public finances. In November 2024 the NAO issued a press release stating that the Comptroller and Auditor General had disclaimed the audit opinion on the 2022/23 WGA.

This marked a nadir, the first ever disclaimer for the WGA. The disclaimer was caused by the severe backlogs in English local authority audits, resulting in inadequate assurance over material amounts throughout the WGA. The NAO's press release commented that just over 10% of English local authorities had submitted reliable data for WGA consolidation and that, of the near 90% that had failed to submit reliable data, 46% submitted unaudited information and 44% hadn't submitted any data at all.

The NAO commented that the disclaimer was unlikely to be removed for 2023/24 and that it was essential the steps being taken by the Government to restore timely and robust local authority audited accounts are effective.

A further NAO press release followed in July 2025, stating the WGA for 2023/24 had been disclaimed for the second successive year. The press release noted only 4% of English local authorities were able to produce audited accounts for inclusion in the 2023/24 WGA, with 41% of bodies not submitting any data at all.

7 See Appendix – Types of auditor report

After the backstop

A system in recovery



Local audit reform

Following on from the backstop regulations, MHCLG launched a consultation on its strategy for overhauling the local audit system in England on 18 December 2024. The consultation ran until 29 January 2025, and the department published the outcome of its consultation on 9 April 2025.

The ministerial foreword to the consultation response noted that only 1% of local government bodies published their audited accounts in time for the original 2022/23 deadline, that by September 2023 the audit backlog exceeded 900 unaudited accounts and that the WGA for 2022/23 was disclaimed in autumn 2024.

The Government acknowledged that whole system of local audit needed fundamental reform, that recovery and building back assurance will take time and that there's clear consensus on the need for urgent action.

The Government set out a strategy which included:



The local audit office

The consultation response outlined a commitment to the LAO being a statutory and independent body, with its purpose and priorities firmly rooted in ensuring local accountability through external audit. The core principles underpinning local audit and the operation of the LAO would be:

- **Value for money** – a system to provide confidence that local bodies and the LAO have arrangements in place to deliver VfM for taxpayers
- **Transparency** – of the sector's financial health and VfM arrangements
- **Capacity and capability** – a sustainable and resilient market with access to expertise and sufficient capacity
- **External scrutiny** – to independently identify issues, challenge and drive improvement
- **Professionalism** – building a sector attractive to auditors to build careers and become future leaders
- **Proportionality** – proportionate and relevant local audit
- **Stronger accountability** – high standards of financial reporting to promote public accountability
- **Timely** – high quality accounts audited and published on time, with timely reporting of issues.

The strategy indicated the LAO will assume the functions of appointing and contracting auditors for local authorities from PSAA. The option for authorities to appoint their own auditors will be removed. The LAO will adopt ownership of the CoAP from the NAO, and it will have powers to interpret and apply the ISAs for the local audit context. The LAO will have responsibility for oversight of local audit quality, including an inspection programme and enforcement arrangements. The LAO will have the power to require information from local bodies and local audit providers. The Government intends a clear separation between the LAO's role and its own operational functions to maintain independence and avoid conflicts of interest.

Statutory deadlines for publishing accounts together with auditor reports will remain, and bodies that miss deadlines will continue to be required to publish delay notices and appear in published non-compliance lists.

Financial reporting and accounts

The Government's consultation response committed to reviewing, in consultation with relevant stakeholders, the content and format of local authority accounts. The purposes and users of local authority accounts will be considered to ensure the CIPFA Code doesn't require more disclosures than are necessary.

CIPFA will maintain responsibility for the Code of Practice on Local Authority Accounting and the Government will work with CIPFA to identify priorities and a programme for reform, as well as exploring options to make the Code freely available.

The Government has announced it will extend the exemption of local authority infrastructure assets from standard accounting treatment until at least 2028/29 and has committed to removing the financial instruments statutory override in 2028/29 to reduce complexity within accounts.

The Government has also indicated it will legislate to ensure pension fund accounts can be produced and audited separately from an administering authority's accounts, to remove delay in finalising pension fund accounts caused by delays to the main authority's accounts audit.

In the long term, the Government will consider the introduction of 'standardised statements,' to provide summarised and accessible financial information to citizens, as recommended in Redmond's review.

Capacity and capability

The consultation response included a Government commitment to review KAP eligibility criteria to remove barriers to individuals becoming local auditors, with the LAO to take on statutory responsibility to determine appropriate eligibility requirements.

To further strengthen financial governance, the Government indicated it would continue to work with the LGA on targeted support for local authority financial teams, audit committees and elected members.

The Government also stated its intention to establish public provision of audit services to support the private market. This would be through a phased approach, gradually scaling up over time with the intention of creating attractive new career pathways in public sector local audit.

Relationships and audit regimes

The Government's strategy commits to require twice-yearly meetings between KAPs and authorities' statutory officers (the head of paid service, monitoring officer and Section 151 officer). Audit Committees will be required to have at least one independent member and consideration will be given to mandating that audit committee chairs are independent members.

MHCLG intends to issue statutory guidance to strengthen and support audit committees and to encourage consistent application of good practice. The LAO will be given the power to decide the appropriate regime for local bodies to ensure a risk-based and proportionate approach.

Local audit backlog

The consultation response commented that the 'reset' of the local audit system, by clearing the audit backlog, was a vital first step towards restoring the system. It recognised the process of rebuilding assurance where audit opinions have been disclaimed will be particularly challenging for both local bodies and audit firms.

The Government committed to supporting the recovery by making regulatory risk more proportionate for the audit firms, clarifying the application of the ISAs in the local audit context, exploring pragmatic solutions for authorities with disclaimed audits and working with system partners to produce additional guidance, advice and support on the process for rebuilding assurance. Such guidance would include providing more clarity on requirements, particularly for auditing opening balances for statutory reserves.

Audit build-back grant

In April 2025, MHCLG announced up to £49 million of support to help eligible bodies clear their audit backlogs and cover the additional cost of rebuilding audit assurance. This support was in the form of Section 31 grants to compensate for reasonable additional audit costs associated with recovery following backstop related disclaimers. In total, 213 local bodies including four pension funds, were eligible for payment, subject to the publication of accounts and the payment of audit fees. The grant will be paid in stages, with initial amounts of up to £18 million paid in June 2025 relating to the 2024/25 year and up to a further £31 million to be allocated for 2025/26. The amount of grant payable is related to 2023/24 PSAA audit scale fees and increases depending on whether a body has received one, two or three or more disclaimers.



English Devolution and Community Empowerment Bill

To give effect to its strategy, the Government introduced The English Devolution and Community Empowerment Bill in the House of Commons on 10 July 2025.

Section 61 of the Bill provides for the establishment of the LAO. Legislation will set out that the main objective of the LAO is to secure the effective operation of the system of audit, with a view to meeting the needs of users of audited accounts.

The LAO will be required to maintain a register of suitably qualified individuals and firms entitled to carry out audits of local public bodies. The Bill includes provisions to enable the LAO to establish a registered local audit provider. The LAO will appoint auditors to non-NHS bodies, determine audit fees and prepare one or more CoAP. The Bill provides that non-NHS local bodies must have an audit committee, and that at least one member of the committee be an independent person.

At the time of writing this report, the Bill is at the House of Lords second reading stage.

Rebuilding audit assurance after a disclaimer of opinion is issued

In undertaking an audit where an unmodified opinion was issued on the prior period, the auditor is, usually, able to place reliance on the material accuracy of the prior period's income and expenditure transactions and closing balances. These transactions and balances become the comparator income and expenditure and the opening balances in the subsequent accounts.

However, where accounts have received a disclaimer of opinion, for one or more prior periods, the successor auditor will have no assurance over comparators or opening balances, and consequently either significant additional audit work relating to the prior period becomes necessary or a further disclaimer or qualification, of the current period accounts, will follow.

To support auditors in rebuilding assurance, the NAO has published 'Local Audit Reset and Recovery Implementation Guidance' (LARRIG). LARRIGs 01-05 were issued in September 2024 and LARRIG 06 in June 2025. Auditors are required to have regard to the LARRIGs, which means they must take into account the guidance and, if they decide not to follow it, they must give clear reasons within audit documentation as to why they haven't followed the guidance. The first phase of the guidance focused on the 'reset' phase, covering financial years up to and including 2022/23.

LARRIG 01 noted that while the FRC would suspend inspection activity in the local government sector for audits up to and including 2022/23, auditors will still be expected to comply with the ISAs and follow statutory guidance. LARRIG 02, 03 and 04 provided guidance on the impact of the backstop arrangements, modifications of the audit opinion, and the auditors' duties in relation to suspected breaches of laws and regulations and reporting in the public interest.

LARRIG 05 was predicated on the assumption that a local authority was able to present a complete set of financial statements to the auditor that have been certified by the s151 officer as giving a true and fair view, provided guidance on rebuilding assurance following a disclaimed opinion. The guidance noted professional judgement would be required in prioritising audit work to allow an audit opinion to be given in the shortest possible timeframe and that work might be prioritised on opening balances, closing balances or in-year transactions to achieve this. The guidance acknowledged it may take more than one audit cycle for the auditor to regain assurance and that the approach to rebuild assurance should be communicated to those charged with governance of the local body. For some bodies, with more deep-seated challenges, recovering audit assurance will take significantly longer and perhaps as long as three to five years.

LARRIG 06 included four case studies, illustrating scenarios that an auditor may experience following a disclaimer being issued. The guidance included content on audit risk assessment procedures and possible responses to assessed risks of misstatement.

The 2023/24 audit cycle

With around 45% of local bodies receiving one or more disclaimers for the financial years up to and including 2022/23, the audit of 2023/24 accounts was always going to be extremely challenging. The local audit system has simply never experienced anything of this scale or impact before.

Local government accounts can be lengthy and complicated documents, in large part due to a reporting framework based on a combination of International Financial Reporting Standards (IFRS) and statutory provisions and overrides.

In particular, local government reserves, which reflect the net assets of a body, are classified across multiple 'usable' and 'unusable' accounts, relating to both revenue and capital transactions, exacerbating the challenge of rebuilding audit assurance.

Local government usable reserves include General Fund and Housing Revenue Account reserves, earmarked balances, schools' balances, capital receipts and unapplied capital grants. Unusable reserves include revaluation reserves, capital adjustment accounts, deferred capital receipts and a host of statutory adjustment reserves including a pensions reserve, collection fund adjustment account and dedicated schools grant adjustment account.

Without assurance over the opening position on each reserve, many of which are material to the financial position of a body, it's not sufficient to gain assurance over in-year movements if assurance is to be obtained over the closing position. A simplistic way of looking at this is that if you know how much money has been spent during the year, but you don't know how much money was available at the start of the year, you won't know how much money is left at the end of the year. In some instances, the inherent challenge of regaining assurance over reserve balances could be so significant that government may need to consider determining reserve balances statutorily.

Given the challenge of prior year disclaimers and the complication of local government reserves, auditors have typically been focusing their attention, at least initially, on auditing transactions which occurred during the period under audit, together with closing balances such as cash, debtors and creditors. By adopting this approach, the assurance gap is at least not deteriorating.

Where auditors and audited bodies have capacity, attention can then turn to rebuilding assurance over opening balances and the income and expenditure of the prior period. To date, success in rebuilding assurance and progressing towards unmodified audit opinions has been possible in relation to bodies such as pension funds, fire and police bodies, where the complication of multiple usable and unusable balances isn't present, or is less significant.

Rotation of auditors and challenges encountered during 2023/24 audits

In October 2022, PSAA announced the outcome of its procurement of audit services for the 470 local government, police and fire bodies that opted into its national scheme for the next appointing period spanning the audits from 2023/24 to 2027/28. The new PSAA contract involved a significant amount of auditor rotation, as some audit firms left the market, some re-joined the market and others took on local government appointments for the first time. Rotation of auditors is an important safeguard to help maintain auditor independence, although it does involve some upheaval as working relationships need to be established between bodies and their new auditors. The timing of the new audit contracts happened to coincide with the peak backlog in local audit work.

In some instances, local authorities rotating to be audited by our firm under the new PSAA contract hadn't received any audit opinions at all under the previous five-year contract. This is a significant time in which accounting records, processes, financial performance and arrangements hadn't been subject to the full scrutiny of external audit and it presented significant challenges for ourselves as the incoming auditor.

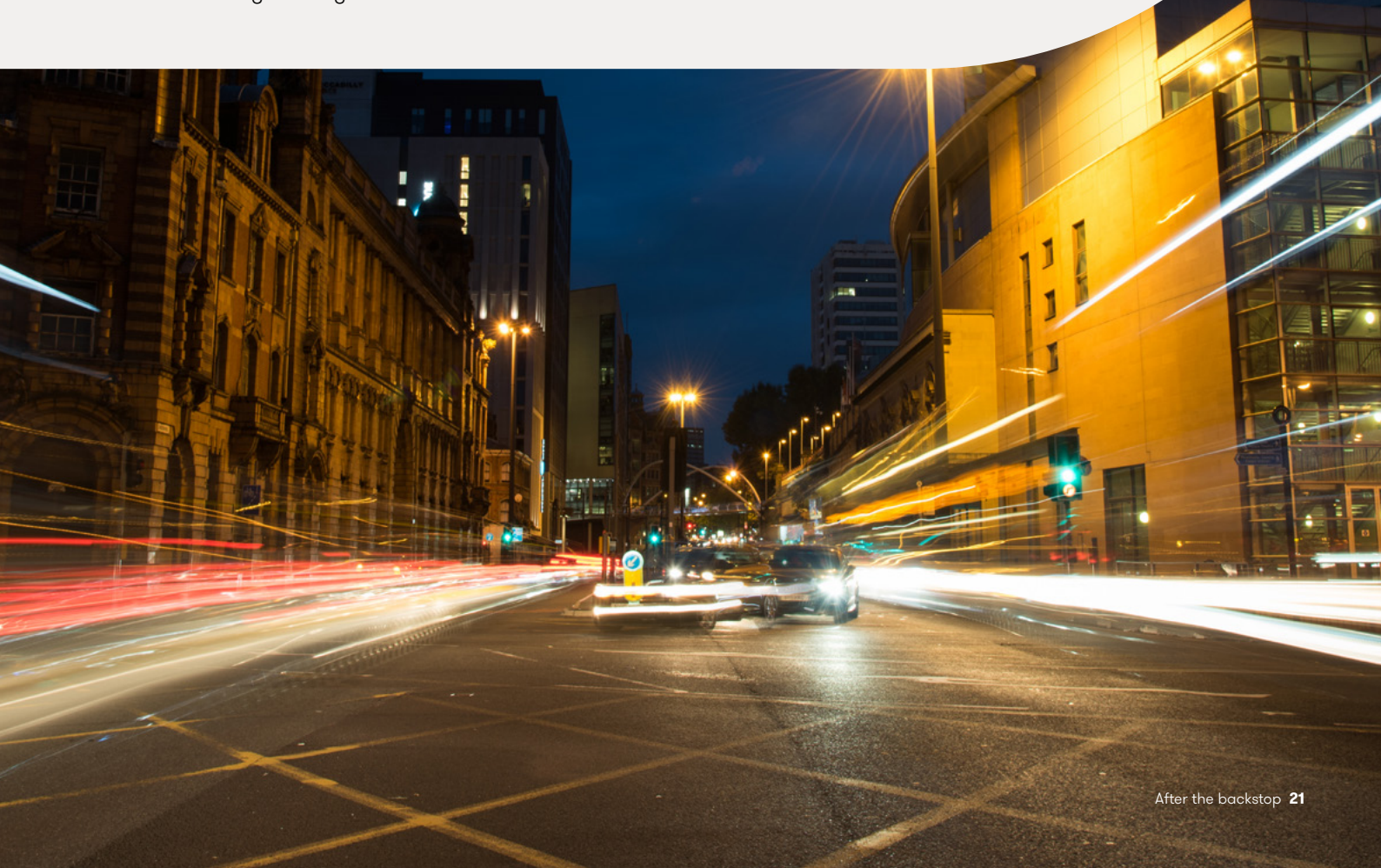
Where prior year audits haven't been undertaken, or were commenced but not completed, we've often noted evidential and, in some instances, behavioural issues in conducting subsequent audits.

These, and other, challenges have included:

- insufficient capacity and capability within finance teams
- significant and completely unacceptable delays and backlogs in the preparation and publication of draft accounts
- severe financial pressures, including inadequate general fund and housing revenue account balances
- lack of engagement in the audit process from departments outside the finance team
- absence of basic controls, such as bank reconciliations, payroll reconciliations, and submission of VAT returns
- inadequate journal entry controls
- absence of adequate supporting accounting records and evidence, including for routine accounts payable and receivable balances
- transactions and events from the previous five years, with ongoing impact on the accounts, where evidence and explanations aren't available
- key judgements and estimates being unsupported by suitable management assessments and rationale
- a lack of responsiveness to audit queries within either an acceptable timeframe or within the time available ahead of backstop dates
- accounts disclosures which are missing, incomplete or not compliant with the CIPFA Code
- unsupported and inappropriate minimum revenue provision policies
- poor capital accounting arrangements, including capitalisation of revenue expenditure, asset classification and valuation errors and fixed asset registers which don't reconcile to the accounts
- property valuations, often performed by internal valuers, which don't comply with RICS or Code requirements
- inadequate preparation for the adoption of new reporting requirements, particularly IFRS 16 leases
- failures in the implementation of new ledger systems and associated data migration problems
- delays in finalisation of exceptional financial support and government approved capitalisation directions.

In some instances, several of these factors coincided within individual audits, in some cases leading to the inevitable outcome of an audit qualification, a disclaimer of opinion or a disclaimer as a result of the backstop regulations and in others an inefficient, protracted and costly audit.

As a firm we identified a record number of significant weaknesses in authorities' value for money arrangements (relating to financial sustainability, governance and improving economy, efficiency and effectiveness) in our 2023/24 audits and we made over 190 key recommendations. This number is on track to be exceeded in our 2024/25 audits, reflecting the scale of the challenges facing the sector.

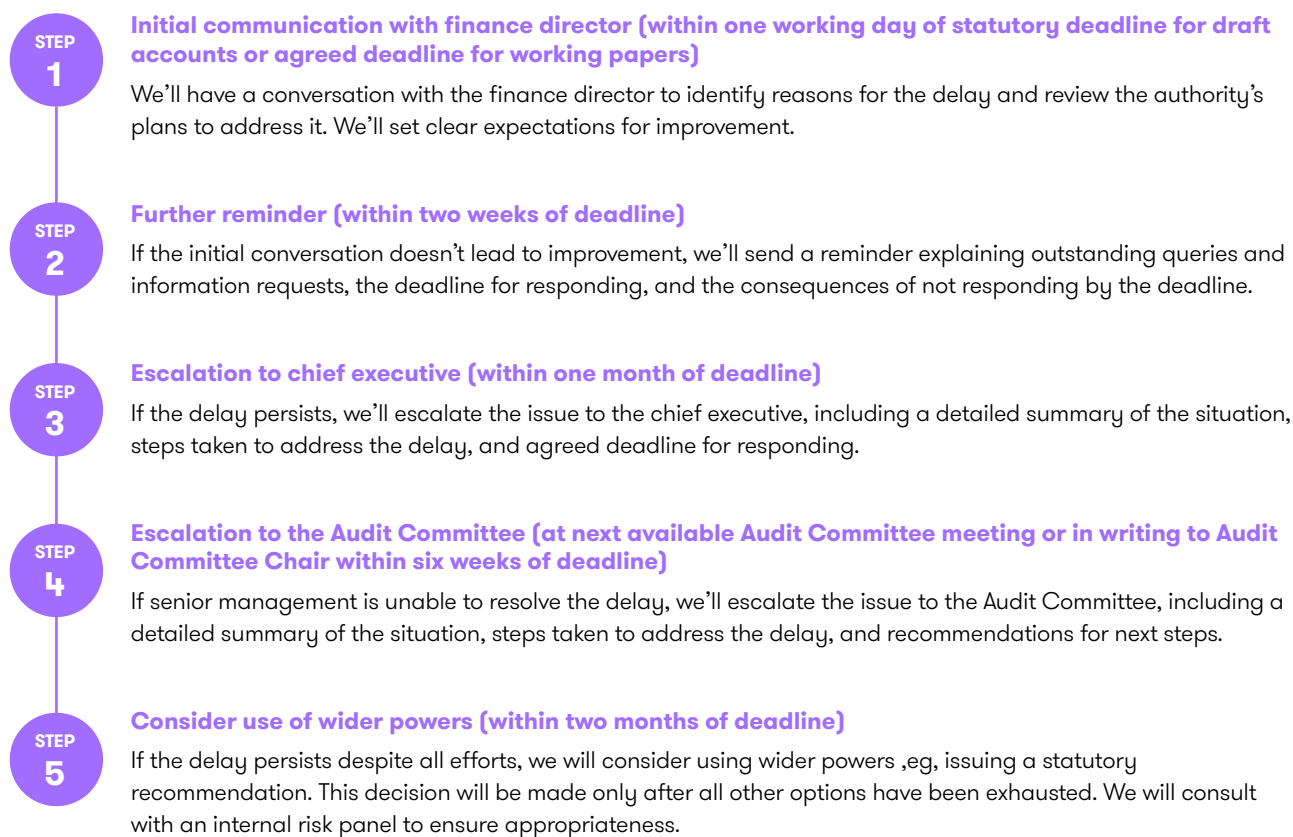


Submission of 2024/25 accounts for audit

Across our local government portfolio of 173 bodies, 22% were unable to publish draft 2024/25 accounts by the already extended deadline of 1 July 2025, indicating significant work is still required to return to routine compliance with statutory timetables.

Over 9% of our local government audited bodies had still not published draft accounts a month after the deadline and after two months we had still not received draft accounts for nearly 4% of our portfolio. The resultant delays to commencing 2024/25 post-statements audits compound the pressure on an already fragile system of local audit and require resourcing plans to be redrawn at short notice.

To help ensure that accounts audits can be completed on time in the future, we've introduced an indicative escalation policy. This policy outlines a framework of steps we will take to address any delays in draft accounts or responding to queries and information requests. Under this framework, if there are delays, we'll take the following steps:



In our view, our experience of conducting 2023/24 audits and 2024/25 audits to date indicates the Government's laudable aspiration of returning to unmodified opinions in the majority of cases within an audit cycle or two is unlikely to be realised.

Many authorities affected by disclaimers simply don't have the internal capacity to respond to auditor queries on opening balances and prior-year transactions in addition to engaging with the audit of current year transactions and balances.

What more can be done?

All key stakeholders in the local audit system will need to continue their efforts to secure a return to high levels of compliance with timely publication of accounts with unmodified audit opinions. We have explored the challenges to establishing and maintaining a sustainable future for local audit in this report. Our recommendations to secure that sustainable future are as follows:

For the LAO

- R1.** To prepare a new local audit code which provides clear direction on how to apply international auditing standards in a local audit context and which reflects the wide remit of local public audit.
- R2.** To support authorities to prepare draft accounts which comply with the CIPFA Code, in line with statutory timetables, through facilitating collaboration, producing guidance and sharing best practice.
- R3.** To support authorities to identify appropriately experienced independent members to chair local government Audit Committees.
- R4.** To develop a rigorous approach to supervision and enforcement of audit quality, focused on all key aspects of the local auditors' responsibilities and undertaken by specialists who have a sound understanding of public audit.
- R5.** To establish a capable, credible public audit practice, working in partnership with the NAO and drawing on support from MHCLG and the audit firms.
- R6.** To develop effective horizon scanning arrangements, provide guidance and updates for auditors, maintain a sensitive-issues register and provide regular reports to MHCLG on progress in discharging its system leadership remit.

For Government

- R7.** To support the local government sector secure sufficient qualified and experienced finance professionals to enable widespread and sustainable compliance with reporting requirements and timetables.
- R8.** To require statutory officers to attest to the effectiveness of their financial reporting process, in line with Sir Donald Brydon's recommendation. This should form part of Government accounting requirements and non-compliance should result in intervention.
- R9.** To provide a mechanism to enable assurance to be rebuilt at all authorities, if necessary through the statutory determination of local authority balances.
- R10.** To step in and appoint commissioners where there's persistent failure by local authorities to prepare timely accounts in accordance with the CIPFA Code.
- R11.** To take steps to reduce the extent of statutory overrides which apply to the local government sector.
- R12.** To work with local government bodies to finalise exceptional financial support arrangements and capitalisation directions in a timely manner.

For local government bodies

- R13.** To focus on maintaining, or re-establishing, the basic foundations of effective core financial systems, reconciliations and timely publication of draft financial statements which comply with CIPFA's Code.
- R14.** Invest in, and keep under review, in-house financial reporting skills, paying close attention to succession planning and professional training, and look to collaborate with other authorities or commission independent support where additional capacity or expert advice is required.
- R15.** To ensure auditors are engaged at an early stage where innovative, complex or significant transactions are anticipated, to allow for effective planning of the additional audit work which may be required.
- R16.** To critically review statements of accounts focusing on reducing unnecessary disclosures and decluttering accounts, taking account of materiality considerations and the requirements of stakeholders.
- R17.** To ensure appropriate time has been scheduled to allow for robust internal quality assurance before the s151 officer certifies draft accounts.

For audit committees

- R18.** To recruit independent members with appropriate skills and experience.
- R19.** To hold management and auditors to account for preparing and monitoring delivery plans.
- R20.** To report to full council, or the closest equivalent, on an annual basis with their assessment of the accounts preparation and audit process.

If the authority's previous accounts were disclaimed:

- R21.** To ensure the committee understands the approach to be taken to rebuilding audit assurance.

If the authority is subject to local government reorganisation:

- R22.** To ensure appropriate consideration is being given to future financial management arrangements.

For auditors

- R23.** To develop, pilot and roll-out risk-based approaches to rebuilding audit assurance following issue of audit disclaimers and to clearly communicate these to finance officers and audit committees.
- R24.** To escalate delays in the audit process to s151 officers, chief executives, audit committee chairs, the LAO and MHCLG as appropriate.
- R25.** To consider whether to issue statutory recommendations where significant failures in financial reporting or governance are identified, delays become unacceptable or where insufficient attention is paid to timely financial reporting.
- R26.** To focus on making local public audit a more attractive career choice and promote the value of public sector audit and the wider societal benefits of robust and independent scrutiny.
- R27.** To support the establishment and development of the LAO in a constructive and collaborative manner.

Appendix

Types of auditor report



The International Standards on Auditing (ISAs) set out the overall objectives of the independent auditor in conducting an audit of financial statements. ISA 200 states⁷:

“In conducting an audit of financial statements, the overall objectives of the auditor are:

- a To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- b To report on the financial statements, and communicate as required by the ISAs (UK), in accordance with the auditor's findings.

In all cases when reasonable assurance can't be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the ISAs (UK) require that the auditor disclaim an opinion or withdraw (or resign) from the engagement, where withdrawal is possible under applicable law or regulation.”

There are four broad categories of report which a local government auditor may issue.

Unmodified opinion

An unmodified opinion, sometimes also referred to as an ‘unqualified opinion’ is the opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

This is the form of audit report which all parties should strive to achieve.

An unmodified local authority auditor report would typically include an opinion such as:

‘In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 20XY and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20XX/XY; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.’

Qualified opinion

ISA 705 is concerned with modifications to the opinion in the independent auditor's report.

ISA 705 paragraph 7 requires that:

‘The auditor shall express a qualified opinion when:

- a The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- b The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.’

All parties should strive to avoid the need for qualified auditor opinions and, in the relatively rare circumstances when they're unavoidable, auditors and audited bodies should collaborate to seek to remove the need for a qualification of the subsequent auditor report.

A qualified local authority auditor report would typically include an opinion such as:

‘In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 20XY and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of Practice on Local Authority Accounting in the United Kingdom 20XX/XY; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.’

The ‘basis for qualified opinion’ section of the auditor's report would include a description of the matter giving rise to the qualification.

Adverse opinion

ISA 705 paragraph 8 requires that:

“The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.”

As with qualified opinions, all parties should strive to avoid the need for adverse auditor opinions and, in the relatively rare circumstances when they're unavoidable, auditors and audited bodies should collaborate to seek to remove the need for such a modification of the subsequent auditor report.

An adverse local authority auditor report would typically include an opinion such as:

‘In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying financial statements:

- don't give a true and fair view of the financial position of the Authority as at 31 March 20XY and of its expenditure and income for the year then ended;
- have not been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20XX/XY; and
- have not been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.’

The ‘basis for adverse opinion’ section of the auditor's report would include a description of the matter giving rise to the report modification.

Disclaimer of opinion

ISA 705 paragraphs 9 and 10 require that:

‘The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it's not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.’

All parties should strive to avoid the need for auditors to issue disclaimer of opinion reports and, when they're unavoidable, auditors and audited bodies should collaborate to seek to minimise the repercussions of a disclaimer and work towards issuing qualified, and ultimately unmodified, audit reports as soon as is practicable.

A disclaimed local authority auditor report would typically state:

‘We don't express an opinion on the accompanying financial statements of the Authority. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.’

The auditor's report would include a ‘Basis for disclaimer of opinion’ section summarising the auditor's reasons for disclaiming their opinion. Where the reasons for the disclaimer include the application of the backstop, the auditor's report would refer to the Accounts and Audit (Amendment) Regulations 2024.

Appendix – management and audit committee checklist

Based on our experience as local authority auditors, best practice would be for management and audit committees to consider and address the points below. and Audit (Amendment) Regulations 2024.

Management	Audit Committee
Does the finance team have sufficient capacity to prepare high-quality draft accounts on time and adequately respond to the audit process? Is expertise from outside the organisation required?	Does the Audit Committee consider it has the appropriate membership, training and access to professional support to effectively discharge its responsibilities?
Is a robust internal project plan in place to allow the authority to place draft accounts on deposit for public inspection by the first working day of July?	Is there an independent member among the committee's membership? If not, is the committee taking steps to secure an appropriately experienced independent member?
Has the finance team held a debrief meeting with external audit following the previous audit? What changes are needed for the next audit cycle?	Is the committee assured on the effectiveness of the authority's internal financial controls?
Were the authority's previous accounts disclaimed? If so, does the finance team understand the approach to rebuilding audit assurance? Has time been allocated in the finance team's work programme to facilitate rebuilding assurance?	Is the committee assured on the capacity and capability of the finance team to secure compliance with statutory financial reporting requirements?
Is the finance team clear on the information needs of users of the accounts, on their views on accounts preparation materiality, and has the clarity of presentation of the accounts been reviewed?	Has management considered the questions set out opposite?
Is the s151 officer satisfied that arrangements are in place for robust completion of CIPFA's Disclosure Checklist and that appropriate time has been scheduled to allow for robust internal quality assurance before the s151 officer certifies the draft accounts?	Does the committee understand the causes of any significant delays to the audit process? Is there a timetable, with clear accountabilities, in place for resolving delays?
Has the need for significant accounting judgements and estimates been thoroughly assessed, especially in light of any organisational changes or significant new transactions? Have assumptions underlying judgements and estimates been properly documented and has the finance team assured themselves over the accuracy and completeness of data inputs to estimation processes?	<p>If the authority's previous accounts were disclaimed:</p> <ul style="list-style-type: none"> • has the auditor set out their risk-based approach to regaining assurance? • does the committee understand the approach? • does the committee understand the likely timescales to achieving an unmodified audit report?
How has management assured itself over the competency of valuation, accounting, actuarial or other experts? Has management fully and appropriately briefed their experts?	<p>If the authority is to be affected by local government reorganisation:</p> <ul style="list-style-type: none"> • is consideration being given to future financial management arrangements?
Has a timetable been agreed with the auditor, including dates for draft accounts, working papers, and availability of key members of staff?	
Is the finance team clear on the core working papers the audit team will require?	
Have the audit and finance teams discussed what work can be done early, outside the peak of post-statements audit fieldwork?	
If the authority is to be affected by local government reorganisation, is collaboration taking place with other affected bodies to identify the future financial management arrangements likely to be required?	

Appendix – timeline

3 March 2023	Levelling Up Committee launches inquiry into financial reporting and audit in local authorities
14 July 2023	DLUHC outlines proposals to address backlog of local government audits
November 2023	PSAA publish 2023/24 audit fee scales
20 November 2023	House of Commons report – Financial Reporting and Audit in Local Authorities
29 January 2024	Government publishes its response to LUHC Committee report
8 February 2024	DLUHC launches consultation on introducing backstop dates within the Accounts and Audit Regulations
4 July 2024	New Government elected
30 July 2024	Ministerial statement on the backlog of local audits
9 September 2024	Accounts and Audit (Amendment) Regulations 2024 laid in Parliament, introducing backstop dates
10 September 2024	NAO publishes LARRIG 01-05
30 September 2024	Accounts and Audit (Amendment) Regulation 2024 take effect
October 2024	CIPFA publishes Bulletin 18 – Local audit backlog in England
14 November 2024	Revised NAO Code of Audit Practice published
26 November 2024	WGA 2022-23 disclaimed
13 December 2024	First backstop date, for financial years up to 31 March 2023
18 December 2024	Government consultation on local audit reform launched
12 February 2025	System leadership responsibility returned from FRC to MHCLG
28 February 2025	Second backstop date, for financial year ending 31 March 2024
4 March 2025	MHCLG publishes first backstop non-compliance list
9 April 2025	MHCLG publish response to consultation on overhaul of local audit in England
5 June 2025	NAO publishes LARRIG 06
7 July 2025	MHCLG publishes second backstop non-compliance list
10 July 2025	English Devolution and Community Empowerment Bill published
17 July 2025	WGA 2023-24 disclaimed
21 July 2025	Local Audit (Major Local Audit) (Amendment) Regulations SI 2025 896 laid before Parliament
27 February 2026	Third backstop date, for financial year ending 31 March 2025

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- [About time? report](#)

Glossary

AR	Accounts and Audit Regulations 2015 (as amended)
CIPFA	Chartered Institute of Public Finance and Accountancy
CoAP	NAO Code of Audit Practice
code	CIPFA Code of Practice on Local Authority Accounting
DLUHC	Department of Levelling Up, Housing and Communities
FRC	Financial Reporting Council
ICAEW	Institute of Chartered Accountants in England and Wales
ISAs	International Standards on Auditing
KAP	Key Audit Partner competence required by the Local Audit and Accountability Act 2014
LAO	Local Audit Office
LGA	Local Government Association
LARRIG	Local Audit Reset and Recovery Implementation Guidance
MHCLG	Ministry of Housing, Communities and Local Government
MLA	Major Local Audit – audits within scope of the FRC inspection regime
NAO	National Audit Office
PSAA	Public Sector Audit Appointments
Redmond	Sir Tony Redmond – Independent Review into the Oversight of Local Audit (September 2020)
s114	Section 114 of the Local Government and Finance Act 1988*
s151	Section 151 of the Local Government Act 1972**

***S114 Local Government Finance Act 1988 114 Functions of responsible officer as regards reports.**

2 Subject to subsection (2A), the chief finance officer of a relevant authority shall make a report under this section if it appears to him that the authority, a committee of the authority, a person holding any office or employment under the authority, a member of the relevant police force, or a joint committee on which the authority is represented:

- 1 has made or is about to make a decision which involves or would involve the authority incurring expenditure which is unlawful,
- 2 has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the authority, or
- 3 is about to enter an item of account the entry of which is unlawful.

****S151 of Local Government Act 1972**

every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.

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