

# Local Audit Reset and Recovery Implementation Guidance (LARRIG) 05

## Rebuilding of assurance following a disclaimed audit opinion

Version issued on: 10 September 2024

### About Local Audit Reset and Recovery Implementation Guidance

Local Audit Reset and Recovery Implementation Guidance notes (LARRIGs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act). LARRIGs are prepared and published with the endorsement of the Financial Reporting Council (FRC) and are intended to support the reset and recovery of local audit in England. The guidance in LARRIGs supports auditors in meeting their requirements under the Act and the [Code of Audit Practice](#) published by the NAO on behalf of the C&AG.

LARRIGs are numbered sequentially and published on the NAO's website. LARRIGs are intended to be in place for a limited period of time and will be withdrawn once no longer necessary.

The NAO prepares Local Audit Reset and Recovery Guidance notes (LARRIGs) solely to provide guidance to local auditors in interpreting the Code of Audit Practice made under the Local Audit and Accountability Act 2014. The contents of LARRIGs cannot be reproduced, copied or re-published by parties other than local auditors without permission from the NAO.

LARRIGs are designed specifically to assist local auditors in forming their own understanding of the requirements of the Code during the reset and recovery of the local audit system. Auditors are required to have regard to LARRIGs, which means that they must take into account the guidance issued by the NAO, and, if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance. LARRIGs are in no way intended as a substitute for the exercise of the independent professional skill and judgement of a local auditor in deciding how to apply the NAO's guidance or when providing explanations as to why guidance has not been followed.

Local auditors should not assume that LARRIGs are comprehensive or that they will provide a definitive answer in every case.

This LARRIG is relevant to local auditors of local public bodies covered by the Local Audit and Accountability Act 2014 and the [Code of Audit Practice](#) **except** auditors of local NHS bodies including NHS foundation trusts and smaller authorities as defined by the 2014 Act.



## Introduction and context

The guidance within this document is prepared to assist auditors in meeting their responsibilities under the [Code of Audit Practice](#) (the Code).

## Contents

This guidance is structured as follows:

- Status of guidance ..... 3**
- General principles ..... 4**
- Auditor co-operation and access to a predecessor auditor’s audit work ..... 5**
- Rebuilding assurance over opening balances ..... 6**
  - Only in-year movements can be assured during the current year audit .....7
  - Opening balances can be assured during the current year audit.....8
  - Only closing balances are assured during the current year audit .....8
  - Closing balances and in-year movements can be assured in the current year audit.....9
  - Case studies .....9
- Obtaining sufficient appropriate evidence in continuing engagements ..... 10**
- Communications with Those Charged With Governance ..... 11**
- Implications for the auditor’s report ..... 12**
- Departure from LARRIG Guidance and Raising Technical Issues or Queries ..... 14**

## Status of guidance

1. This guidance sets out to auditors of English local authorities for circumstances where the auditor's opinion on the prior year financial statements has been disclaimed because of backstop arrangements included in the proposed legislative changes to the Accounts and Audit Regulations 2015 (original [SI 2015/234](#) and the Accounts and Audit (Amendment) Regulations 2024 [SI 2024/907](#)). Its purpose is to assist auditors in the process of rebuilding assurance and provide principles to assist in the application of professional judgement, with a view to supporting a timely return to the auditor being able to determine that, based on sufficient appropriate audit evidence, the financial statements are free from material misstatement.
2. The scope of this guidance is limited to the application of the ISAs (UK) in the exceptional circumstances created by the backlog in completing audits of English local authorities, and where a statutory backstop mechanism has resulted in a significant number of instances where the auditor has disclaimed their opinion on prior year audits. As this guidance is issued by the C&AG under paragraph 9 of Schedule 6 of the Local Audit and Accountability Act 2014, it applies only to relevant authorities as defined by the Act. It does not address the auditor's responsibilities for value for money arrangements reporting, their wider powers and responsibilities, or circumstances relating to the issuance of the audit certificate.
3. This scope is further limited to audits of annual accounts for financial years from 2023/24. Guidance on the application of ISAs (UK) to audits of annual accounts for financial years up to and including 2022/23 is provided by LARRIG 02 *Guidance on the backstop arrangements on audits of English local authorities*.
4. This guidance is predicated on the assumption that local authorities can present a complete set of financial statements to the auditor that have been certified by the Section 151 officer as representing a true and fair view of the entity's financial position. While this guidance is for auditors, it is also important to emphasise that the timely delivery of audited financial statements is a collective enterprise where both preparers and auditors have important responsibilities. Effective governance and internal controls, allied to accurate and timely financial reporting, are essential conditions to support a return to the timely delivery of audited financial statements where the auditor can reach opinions based on sufficient appropriate audit evidence.

## General principles

5. The first, and overarching, principle that auditors should follow when applying this guidance is that **powerful public interest considerations require a return, as soon as possible, to a position where auditors are able to issue opinions on relevant local authority financial statements that are based on sufficient appropriate audit evidence**. This is because the timely delivery of high-quality financial reporting and external audit is vital for the provision of accountability, transparency, and assurance for local people and their elected representatives, and the consolidation of these financial statements into the Whole of Government Accounts to support parliamentary accountability.
6. The scale of work needed for auditors to make a timely return to this position following a disclaimer of opinion in the prior year financial statements may be significant and will vary between different engagements. Future backstop arrangements and the finite nature of available resources mean that it may not be possible, despite reasonable endeavours, to perform all the necessary work for the auditor to issue an opinion based on sufficient appropriate audit evidence for the current year audit. The public interest considerations described in paragraph 5 require the application of professional judgement by the auditor to identify audit areas where work should be prioritised, with a view to following the fastest pathway toward returning to a position where the auditor is able to opine on the basis of sufficient appropriate audit evidence. This should also be communicated to Those Charged With Governance in accordance with paragraph 30 of this guidance.
7. A second principle applies to the use of requirements and application material included in ISA (UK) 510 *Initial Audit Engagements – Opening Balances*. This standard provides scalable and proportionate principles-based requirements that address the auditor’s responsibilities relating to opening balances in an initial audit engagement. Paragraph 4(a) of this standard defines initial audit engagements as:

*An engagement in which either:*

- (i) The financial statements for the prior period were not audited; or*
- (ii) The financial statements for the prior period were audited by a predecessor auditor.*

Backstop arrangements mean that many audits conducted by the same auditor for the 2023/24 financial year will not be able to take reliance from the work performed during the prior year audit on closing balances for current year opening balances.

While these circumstances are not scoped into ISA (UK) 510, auditors may find themselves in an analogous situation to paragraph 4(a)(i), where there is no assurance available for the opening balances from the prior year audit. **Accordingly, auditors in these circumstances may apply the requirements and application guidance of ISA (UK) 510, where appropriate, to obtain assurance over opening balances.**

8. These principles and the guidance set out here may also be applied by auditors in circumstances where the prior period financial statements were audited by a predecessor auditor, as described in ISA (UK) 510, paragraph 4(a)(ii).
9. The auditor’s decision-making process with respect to identifying the optimal pathway for the timeliest return to opinion-making based upon sufficient appropriate audit evidence will also require the application of professional judgement within the specific context of the facts and circumstances of individual engagements. The auditor may, as appropriate, prioritise work on opening balances, closing balances, or in-year movements, to achieve this pathway. The extent of work performed in the prior year audit and the auditor’s underlying assessment of the risk of material misstatement will be important considerations. There may be several financial years prior to the current year for which the auditor has issued a disclaimer of opinion. In these circumstances, significant challenges will exist in both the preparation and auditing of opening balances. Other matters, such as the potential loss of access to accounting records, may also be contributory factors in making these prioritisation decisions.

## Auditor co-operation and access to a predecessor auditor’s audit work

10. The 2024 Code sets an expectation that auditors will co-operate as fully as possible during the extended handover periods arising because of the current backlogs in local audit. As a result of backstop arrangements, incoming auditors may find themselves assuming engagements where the opinion on the financial statements was disclaimed in the previous year. In these circumstances, the incoming auditor may need to perform more extensive procedures than usual to ascertain whether they can place reliance on work performed by the predecessor auditor on specific account areas.
11. The ICAEW’s *Audit Regulations and Guidance* (effective 1 June 2023), states the following as part of Regulation 3.09:

*Where the information related to audit work is requested by the successor but is not filed on the current audit file but, for example, on a permanent or systems file, or there is a reference to a prior audit file, access should be provided by the predecessor to this information.*

12. Accordingly, and consistent with the duties placed on auditors by the Code to co-operate in these circumstances, outgoing auditors should:

- Provide access to the previous audit file where the auditor disclaimed their opinion; and
- Provide access to any specific audit working papers from previous audit files, where they have been properly requested by the incoming auditor under the ICAEW's Audit Regulation and Guidance.

13. When determining how much information to request from historic audit files, auditors should begin with the immediate prior year audit file. Depending on the amount of work done on the file selected, auditors may determine that it is necessary to request further information from earlier years.

## Rebuilding assurance over opening balances

14. ISA (UK) 510 paragraph 6 states the following:

*The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by:*

- (a) Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated;*
- (b) Determining whether the opening balances reflect the application of appropriate accounting policies; and*
- (c) Performing one or more of the following:*
  - (i) Where the prior year financial statements were audited, reviewing the predecessor auditor's working papers to obtain evidence regarding the opening balances;*
  - (ii) Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or*
  - (iii) Performing specific audit procedures to obtain evidence regarding the opening balances.*

In the context of a current year audit where the opinion on the prior year audit has been disclaimed, the auditor cannot place any reliance on the prior year closing balances for the purpose of the current year opening balances.

15. Where the same auditor is responsible for both the prior year and current year audits, and where the auditor determines that the fastest pathway to a position where they are able to opine on relevant local authority financial statements on the basis of sufficient appropriate audit evidence includes obtaining assurance over particular opening balances, the requirements of ISA (UK) 510, paragraph 6, should be followed to obtain that assurance. The requirements set out in paragraphs 6(a) and 6(b) will be met through meeting the requirements in paragraph 6(c), which requires the auditor to obtain sufficient appropriate evidence on opening balances. This comprises determination of the correct opening balances, as well as whether the appropriate accounting policies have been applied.
16. Meeting the requirements of ISA (UK) 510 paragraph 6(c) depends on the nature of the underlying balance, and the auditor will need to make this assessment on a balance-by-balance basis. It is possible to identify four distinct sets of circumstances when the opinion on the prior year audit has been disclaimed:
- Only in-year movements can be assured during the current year audit.
  - Opening balances can be assured during the current year audit.
  - Closing balances can be assured during the current year audit.
  - Closing balances and in-year movements can be assured during the current year audit.

Each set of circumstances will require the auditor to use professional judgement with respect to both the audit approach, as well as decisions made to prioritise work on a specific balance. Considerations for each are set out below.

#### Only in-year movements can be assured during the current year audit

17. These circumstances, where balances are determined cumulatively through auditing in-year movements, represent the most challenging for the auditor in making a timely return to obtaining sufficient appropriate audit evidence to base an opinion for the entirety of the financial statements. For a local authority, this will be the case for the majority of useable and unusable reserve balances. In particular, users of audited local authority financial statements have a strong interest in the general fund reserve balance, given its significance for setting council tax.
18. These considerations mean that the auditor will need to prioritise obtaining sufficient appropriate audit evidence for this type of opening balance, since the auditor will not be able to issue an unmodified opinion until this has been achieved. Since the time available to the auditor is finite because of backstop arrangements, it may take more than one audit cycle for the auditor to reach this position. This will require the auditor to accrete relevant information over successive cycles with a view to using it as

sufficient appropriate audit evidence at some future point. Some relevant considerations are set out in paragraphs 26 to 29 of this guidance.

19. In planning their work, auditors should also give thought to the need to communicate to Those Charged with Governance in accordance with paragraph 30 of this guidance, how they propose to develop an audit approach that allows a return to unmodified opinions and over what period. The development of this audit approach is likely to be an iterative process and be refined over successive audit cycles.

#### Opening balances can be assured during the current year audit

20. In these circumstances, the auditor may be able to obtain sufficient appropriate audit evidence through two approaches:

- The performance of audit procedures with respect to information available in the current year, in accordance with ISA (UK) 510, paragraph 6(c)(iii).
- The use of working papers and other information available on the prior year audit file, in accordance with ISA (UK) 510, paragraph 6(c)(i). Here, the auditor is required to determine whether this information remains relevant and reliable if it is to be used in the context of the current year audit.

These approaches, or a combination thereof, can allow the auditor to conclude that the applicable opening balance is not materially misstated during the current year audit.

21. The public interest considerations set out in paragraph 5 of this guidance suggest that auditors should prioritise work on balances which can be assured in this way when this is the method for obtaining assurance for this balance, or if the balance itself is highly material to the financial statements. In particular, work on cash balances should be prioritised given the importance of this audit area to the financial statements as a whole.

#### Only closing balances are assured during the current year audit

22. For certain balances, such as current assets and current liabilities, a typical audit approach is to assure closing balances only, for reasons of efficiency or practicality. Through assuring closing balances in the current year audit, the auditor will be able to obtain assurance over opening balances, closing balances, and therefore in year movements, in the subsequent year audit.
23. Work should be prioritised within the current year audit to obtain assurance over the closing balances due to the public interest considerations set out in paragraph 5 of this guidance. The auditor may also consider developing approaches which facilitate the



assurance of in-year movements, where time and resource permits, even though such approaches are not usually adopted by auditors. Where, in the auditor's professional judgement, it will not be possible to return to a position where there is sufficient appropriate audit evidence on which to issue an audit opinion in the subsequent year audit, the auditor may further defer work on balances and audit areas in this category if there are other audit areas which will require the employment of significant volumes of resource.

#### Closing balances and in-year movements can be assured in the current year audit

24. If the auditor is able to obtain sufficient appropriate audit evidence to assure both closing balances and in-year movements, the opening balance can also be determined. This approach is the one envisaged by ISA (UK) 510, paragraph 6(c)(ii), and will enable assurance to be rebuilt for this balance during the current year audit. The nature of balances with local authority financial statements means that this scenario is unlikely to be common, though it may be possible for the auditor to devise procedures which could facilitate this approach. When adopting this approach, the auditor should again follow public interest considerations in electing to prioritise work on such balances. Relevant considerations include:

- If it is possible to assure closing balances, then the auditor should be able to return to being able to assure opening balances, movements, and closing balances in the subsequent year audit. It may therefore be reasonable to prioritise work on other audit areas if they will require more intensive application of resource.
- In circumstances where assurance is required on in-year movements to support assurance on other balances which can only be assured via in-year movements, the auditor should prioritise work on these movements to avoid a possible loss of assurance on these related balances.

#### Case studies

25. To further support auditors in making judgements on how to rebuild assurance in a timely manner for specific classes of balances, it is intended that a series of case studies will be issued to support this guidance. Moreover, this guidance may be revisited and updated if unanticipated issues come to light during the process of rebuilding assurance.

## Obtaining sufficient appropriate evidence in continuing engagements

26. In obtaining audit evidence, the auditor may use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits. This will provide the auditor with audit evidence that is relevant both to the auditor's determination of the nature and extent of risk assessment procedures, and the identification of risks of material misstatement and therefore responses to those risks.
27. The auditor should have regard to ISA (UK) 315 *Identifying and Assessing the Risks of Material Misstatement*, paragraph 16:

*When the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall evaluate whether such information remains relevant and reliable as audit evidence for the current audit.*

Additionally, ISA (UK) 500 *Audit Evidence*, paragraph 6, states that:

*The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.*

Accordingly, the auditor is required to evaluate whether the information obtained from the auditor's previous experience with the entity and from audit procedures remains relevant and reliable if the auditor intends to use that information for the purposes of the current audit. In the context of accreting information for use in future audit cycles, the auditor will need to make similar considerations to ensure that this information remains usable for the provision of sufficient appropriate audit evidence.

28. Where the aim is to accrete relevant information over successive audit cycles with the intention of using it as sufficient appropriate audit evidence, the auditor must also follow the requirements of ISA (UK) 230 *Audit Documentation*, paragraph 8:

*The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:*

- (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs (UK) and applicable legal and regulatory requirements;*
- (b) The results of the audit procedures performed, and the audit evidence obtained; and*

*(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.*

Even though the work may take several audit cycles to complete, it must be well documented so that it can be utilised as audit evidence at a future point.

29. The accumulation of work over successive periods to obtain sufficient appropriate audit evidence should also have regard to the requirements of ISA (UK) 450 Evaluation of Misstatements Identified During the Audit. Paragraphs 11(b) and A23 set out a requirement to review the impact of accumulated misstatements from prior periods:

11. *The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider: [...]*

(b) *The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.*

A23. *The cumulative effect of immaterial uncorrected misstatements related to prior periods may have a material effect on the current period's financial statements. There are different acceptable approaches to the auditor's evaluation of such uncorrected misstatements on the current period's financial statements. Using the same evaluation approach provides consistency from period to period.*

## Communications with Those Charged With Governance

30. In circumstances where the auditor determines that they will need to accrete information over successive audit cycles with the aim of obtaining sufficient appropriate audit evidence for specific balances and audit areas, the auditor should ensure that they clearly communicate their approach on this matter to those charged with governance in accordance with ISA (UK) 260 *Communication With Those Charged With Governance*. The following paragraphs from this standard are particularly relevant:

15. *The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor.*

16. *The auditor shall communicate with those charged with governance: ...*

(b) *Significant difficulties, if any, encountered during the audit; ...*

- (d) *Circumstances that affect the form and content of the auditor's report, if any; and*
- (e) *Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process.*

An inability to obtain sufficient appropriate audit evidence within the context of a current year audit is likely to represent a significant difficulty and represent a circumstance that affects the form and content of the auditor's report. Additionally, the auditor may also communicate as significant matters those aspects of the financial reporting process which could impede the auditor from obtaining sufficient appropriate audit evidence for these balances and audit areas in a timely manner.

31. Where the auditor communicates to those charged with governance that constraints of time mean that the planned scope and timing of the current year audit will include the need to accrete information over successive cycles, those communications also include the articulation of how the auditor intends to achieve the aim of obtaining sufficient appropriate audit evidence for the audit as a whole. This should include an assessment of the auditor of the timeframe over which this aim will be achieved and provide an overview of the additional work to be performed in successive audits to meet this aim. This information will assist those charged with governance to understand the auditor's approach, and to support them in their oversight of the financial reporting process. This will be an iterative process, and the auditor's approach to this matter may need to be updated during successive audit cycles. As noted in paragraph 4, effective governance and controls at the entity will help facilitate a timely return to circumstances where the auditor no longer needs to accrete information over successive audits.
32. In circumstances where the auditor disclaims their opinion on the financial statements because of backstop arrangements, auditors may follow the guidance on communication with Those Charged With Governance as set out in LARRIG 02, paragraphs 24, 26, and 27, as applicable.

## Implications for the auditor's report

33. Where a disclaimer of opinion has been issued on the prior year financial statements, the auditor follows the requirements described in ISA (UK) 710 Comparative Information – Corresponding Figures and Comparative Financial Statements, paragraph 11:

*If the auditor’s report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor’s opinion on the current period’s financial statements. In the Basis for Modification paragraph in the auditor’s report, the auditor shall either:*

- (a) Refer to both the current period’s figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period’s figures are material; or*
- (b) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period’s figures and the corresponding figures.*

34. Backstop arrangements may also create circumstances which may require auditors to consider modifying their opinion. The [proposed legislative changes](#) to the Accounts and Audit Regulations 2015 require relevant authorities in England included under Schedule 2 of the Local Audit and Accountability Act 2014 that are not NHS bodies or smaller authorities to publish audited annual accounts for respective financial years by the following dates:

- Year ended 31 March 2024: 28 February 2025.
- Year ended 31 March 2025: 27 February 2026.
- Year ended 31 March 2026: 31 January 2027.
- Year ended 31 March 2027: 30 November 2027.
- Year ended 31 March 2028: 30 November 2028.

These backstop arrangements could create time constraints that impede the auditor from completing all necessary audit procedures to obtain sufficient appropriate audit evidence to support the opinion and fulfil the objectives of the relevant ISAs (UK). This will include instances where the auditor lacks sufficient time and resource to rebuild assurance over opening balances as described in paragraphs 20 to 23 of this guidance. In these circumstances, auditors may, where relevant, follow the guidance set out in LARRIG 02, paragraphs 6 to 16.

35. Where the auditor disclaims their opinion due to circumstances arising from the backstop, the guidance set out in paragraphs 28 to 33 of LARRIG 02 on the impact of the backstop on the auditor’s report may also be followed where relevant.

## Departure from LARRIG Guidance and Raising Technical Issues or Queries

36. Where auditors judge that they need to depart from the guidance in a particular engagement, this should be drawn to the attention of the NAO and the FRC's Director of Local Audit who will consult with the appropriate organisations within the local audit system to resolve the issue.
37. Auditors in firms should raise queries within the firm, in the first instance, so that the relevant technical support service can consider whether to refer queries to the NAO.
38. All queries related to LARRIGs should be submitted to the NAO's Local Audit Code and Guidance (LACG) team by e-mailing [LACG.queries@nao.org.uk](mailto:LACG.queries@nao.org.uk). Auditors are reminded that only nominated contacts can email LACG Queries. Please email [lacg@nao.org.uk](mailto:lacg@nao.org.uk) to request additional contacts to be added, including details of role and supporting explanation.
39. The NAO also engages with the firms through its Local Auditors Advisory Group (LAAG) and supporting technical networks to consider any emerging regime-wide technical issues on a timely basis. Auditors should follow their in-house arrangements for bringing significant emerging issues relating to the reset and recovery of the local audit system to the attention of their supplier's representative on LAAG or the relevant technical network.