



**Oldham**  
Council

**Report to Audit Committee**

# **The Financial Reporting Council (FRC) 2023 report on Local Audit**

**Portfolio Holder:** Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Low Carbon

**Officer Contact:** John Miller – Head of Internal Audit and Counter Fraud

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## **Reason for Decision**

This report summarises the latest report issued during December 2023 by the Financial Reporting Council (FRC) concerning Local Authority audits across the UK Public Sector.

## **Executive Summary**

In December 2023 the FRC issued the latest report of its inspection activity in relation to major local audits: FRC Major Local Audits – Audit Inspection Report December 2023.

This FRC Audit Inspection Report sets out the principal findings arising from the 2022/23 cycle of inspections.

Unlike previous years, the FRC inspections of Local Authority Audits have been significantly curtailed by the backlog of local audit work across the country.

The FRC report sets out the limitations to its work in this area and, as a result, casts doubt on the reliability of the conclusions to be drawn from their work. Principally due to the likelihood that the highest risk reviews are likely to be the ones which remain incomplete and, therefore, could not be selected for their sample.

The previous year's FRC report referenced 14 local audit reviews of Local Authorities and provided an overview and comparison of the performance of each of the firms involved in local audit work. This latest 2023 review relies on a sample of only 4 completed local audit reviews and, as a result, the FRC are unable to publish auditor by auditor assessments of audit quality.

The FRC report findings are positive in respect of the reviews examined, with all reviews found to be good or requiring only limited improvements. However, the FRC notes that:

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*“When [the FRC] are able to review higher risk local government audits, more inspections may be assessed as requiring improvements or significant improvements.”*

Bearing in mind the changes to the Committee’s Membership since the last report to the Committee on this topic in November 2022, the report also reproduces relevant paragraphs from the November 2022 report as the most up to date and reliable assessment of the quality of Local Audit in the Local Government Sector.

## **Recommendations**

That Members of the Audit Committee note the contents of the latest FRC report for information.



**FRC Local Audit Inspection Report 2023****1. Background**

- 1.1 The Financial Reporting Council (FRC) is the independent body responsible for monitoring the quality of major local audits. This monitoring is performed by the FRC's Audit Quality Review (AQR) team. Their inspection of major local audits aims to hold external audit firms to account for making the changes needed to safeguard and improve audit quality.
- 1.2 Auditors play a vital role in upholding trust and maintaining public confidence in Local Authorities by auditing financial statements, satisfying themselves that proper arrangements are in place to secure Value for Money (VfM) and, where necessary, exercising additional powers and duties.
- 1.3 The FRC's objective is to achieve consistently high audit quality across the UK so that the public can have confidence in the work of local auditors. To support this objective, they have powers to:
  - Inspect the quality of major local audits.
  - Set eligibility criteria for local auditors and oversee delegated regulatory tasks carried out by professional bodies, such as qualification, training, registration and monitoring of non-major local audits.
  - Consider the implications of poor audit quality and bring enforcement action against auditors, if appropriate, in cases of a breach of the relevant requirements.

**2. Summary of FRC Local Audit Inspection Report 2023 findings**

- 2.1 The latest FRC Audit Inspection Report sets out the principal findings arising from the 2022/23 cycle of inspections.
- 2.2 The FRC reports that timeliness of local auditor reporting continues to be poor. Timeliness matters, it promotes transparency and accountability. Audited bodies, local auditors and those with regulatory responsibilities must continue to work together to restore timely completion of audits so that public confidence is not further diminished. The FRC report notes:

*"Figures compiled by Public Sector Audit Appointments Limited (PSAA) showed that in England 411 or 88% of 31 March 2022 local government audits were not completed by the publishing date of 30 November 2022. The backlog of earlier audits was also concerning, with 220 audits from earlier years incomplete at the same date. That meant a total of over 630 audits were not complete at the publishing date. That number has risen to 918 outstanding audits by the end of September 2023. This is completely unacceptable."*

*"We are very disappointed that our ability to inspect higher profile and higher risk audits has been so severely restricted by the backlog. Most are incomplete, in some cases for several years."*

The report goes on to say:

*"We reviewed ten individual audits this year, six health and four local government. Historically, our inspections have identified fewer concerns with audit quality in the health sector than in local government."*

*"All financial statement audits we inspected were assessed as good or limited improvements required. Despite the severe restrictions placed on our monitoring by failings in timeliness,*

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*auditors have achieved the level of quality we expect on the audits that were available for us to inspect.”*

And:

*“All VfM inspections were assessed as good or limited improvements required.”*

However, the report concludes overall that:

*“The severe restrictions placed on our ability to perform audit quality inspections means that they cannot be relied upon to give a proper indication of audit quality in local government.”*

And:

*“When AQR is able to review VfM arrangements work at higher risk local government bodies, our assessment of audit quality may reduce.”*

- 2.3 In summary, therefore, whilst the FRC did not identify any significant issues or concerns in the Local Audit work they reviewed, they are clear that the limitations placed on the sample of work available to them casts doubt on the reliability of these findings in their latest report.
- 2.4 The FRC report also sets out the wider steps for a “reset” of Local Audit activity nationally to allow prior periods to be finalised across the sector, and auditors to concentrate on ongoing, as opposed to prior period reviews. Steps include:
- A statutory deadline for the completion of delayed local government audits from 2015/16 to present. Auditors being required to provide as much assurance as possible for these outstanding years.
  - Where the auditor has not completed their work by the deadline, it may modify or disclaim its audit opinion. It is accepted that this will result in reduced assurances over these periods and many more qualified or disclaimed audit opinions.
  - An overarching principal of “resetting” the system and restoring timely completion of audits.
  - Requiring auditors to report on VfM arrangements for historic periods will remain a high priority.
  - Encouraging auditors to use their reporting powers to raise awareness of pervasive accounting or other public interest issues.
- 2.5 The FRC’s proposed response to these plans includes performing no routine audit quality inspections of major local audits for financial years up to and including the year ended 31 March 2023, unless there is a clear case in the public interest to do so. The FRC plan to resume a programme of routine audit quality inspections once the system has been “reset”. The full report is attached as Appendix 1.
- 2.6 In the absence of an updated report on the quality of the audit work undertaken by the Council’s External Auditors in the latest round of FRC reviews, and the changes to the Membership of the Audit Committee since the last review was reported to the Audit Committee, the summarised results reported to the Committee on 29 November 2022 are reproduced below as the most up to date information available on local authority audit performance on a firm by firm basis.
- 2.7 Table 1 below summarises the 2021/22 findings of the FRC reviews by firm in respect of the work of the firms in connection with their audit of both their clients’ financial statements, and their work in connection with Value for Money opinions.
- 2.8 The firms are listed in order of the firm with the highest number of major local audit engagements at that time, Grant Thornton UK LLP, to the firm with the least, Deloitte LLP. The percentage figures in bold represent the percentage of those engagements reviewed by the
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FRC where the firm’s work was assessed as either “good or limited improvements required”. The higher this percentage figure therefore, the better. The explanatory text underneath each percentage expands on this outcome to show the size of the sample and further details of the results.

2.9 The more major local audits undertaken by the firm, the larger and, arguably, more representative the sample is likely to be of the firm’s work as a whole. However, as can be seen in Table 1 below, there are some notable differences in results with only Mazars LLP and KPMG LLP achieving a “clean sheet”, and BDO LLP appearing to perform somewhat less favourably overall. Members will note that Mazars are the Council’s External; Auditor, and KPMG undertake the Council’s Housing Benefit Subsidy and Teacher’s Pension audit.

**Table 1: 2021/22 FRC inspection results by category and firm.**

<b>Firm</b>	<b>Audit Inspection Results</b>	<b>VfM Inspection Results</b>
<b>Grant Thornton UK LLP</b>	<b>71%</b>  (Five of the seven audits inspected were assessed as either good or limited improvements required)	<b>100%</b>  (All four VfM arrangements inspections were assessed as good or limited improvements required)
<b>Ernst &amp; Young LLP</b>	<b>50%</b>  (Two of the four audits inspected were assessed as requiring more than limited improvements)	<b>100%</b>  (All three VfM arrangements inspections were assessed as good or limited improvements required)
<b>Mazars LLP</b>	<b>100%</b>  (All three financial statement audits inspected were assessed as good or limited improvements required)	<b>100%</b>  (All three VfM arrangements inspections were assessed as good or limited improvements required)
<b>KPMG LLP</b>	<b>100%</b>  (The two financial statement audits inspected were assessed as good or limited improvements required)	<b>100%</b>  (The two VfM arrangements inspections were assessed as good or limited improvements required)
<b>BDO LLP</b>	<b>50%</b>  (One of the two financial statement audits inspected was assessed as requiring significant improvements)	<b>0%</b>  (The one VfM arrangements inspection was assessed as requiring significant improvements)
<b>Deloitte LLP</b>	<b>50%</b>  (One of the two financial statements audits inspected was assessed as requiring significant improvements)	<b>100%</b>  (The one VfM arrangements inspection was assessed as good or limited improvements required)

### 3 Options

3.1 The Audit Committee can either:

- a) choose to note the contents of the latest FRC position paper and report for information.
- b) decline to note the contents of the latest FRC position paper and report for information.

- 4 **Preferred Option**
  - 4.1 The preferred option is option a) that the Audit Committee notes the contents of the latest FRC position paper and report for information.
  - 5 **Consultation**
  - 5.1 N/A.
  - 6 **Financial Implications**
  - 6.1 N/A.
  - 7 **Legal Services Comments**
  - 7.1 N/A.
  - 8 **Cooperative Agenda**
  - 8.1 N/A.
  - 9 **Human Resources Comments**
  - 9.1 N/A.
  - 10 **Risk Assessments**
  - 10.1 N/A
  - 11 **IT Implications**
  - 11.1 N/A.
  - 12 **Property Implications**
  - 12.1 N/A.
  - 13 **Procurement Implications**
  - 13.1 N/A.
  - 14 **Environmental and Health & Safety Implications**
  - 14.1 N/A.
  - 15 **Equity, Community Cohesion and Crime Implication**
  - 15.1 N/A.
  - 16 **Equality Impact Assessment Completed**
  - 16.1 N/A.
  - 17 **Forward Plan Reference**
  - 17.1 N/A.
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18 **Key Decision**

18.1 N/A.

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are included as Appendices 1 and 2
Officer Name:	John Miller
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20 **Appendices**

20.1 The following Appendices are available to support this Report:

- **Appendix 1:** FRC Major Local Audits – Audit Inspection Report December 2023

