

## Financial Reporting Council (FRC) report on the inspection results of major local audit

On 30 October 2020 the FRC published for the first time the results of inspection of local audit, i.e. the work that auditors do on local government and NHS entities like yourselves under the NAO Code. We were very pleased that the three EY audits they reviewed were rated as good or only needed limited improvements (for the second year running), which compares extremely favourably to the other providers in this market. The results support the efforts we have made in focusing on audit quality and the investments in training and developing our audit methodology, including the use of specialists such as internal valuers and our attention to asset valuations which is highlighted as an example of good practice.

A link to the report is here - [\(LINK\)](#).

**Summary:** Findings from the FRC's inspection of major local audits in England, for the financial year ended 31 March 2019, were published on Friday last week. The FRC explains that its report focuses on the key areas local audit activity requiring action from across the firms. The FRC's primary aim is to safeguard and enhance the quality of local audits.

Of the 271 major local audits in the FRC's inspection scope, the FRC reviewed 15 across the seven largest audit firms, covering both the financial statement opinion and the Value for Money (VfM) arrangements. For the financial statement opinion two audits reviewed by the FRC required significant improvements and seven required improved improvements. None of the VfM conclusions reviewed required more than limited improvement.

FRC states that 'some firms are still not consistently achieving the necessary level of audit quality and therefore need to make further progress.' For two firms, Grant Thornton and Mazars, the level of audit quality requires significant improvement, and those firms should perform a detailed Root Cause Analysis (RCA) of the issues the FRC has identified and put in place, with an audit quality action plan across local audits to address the FRC's findings.

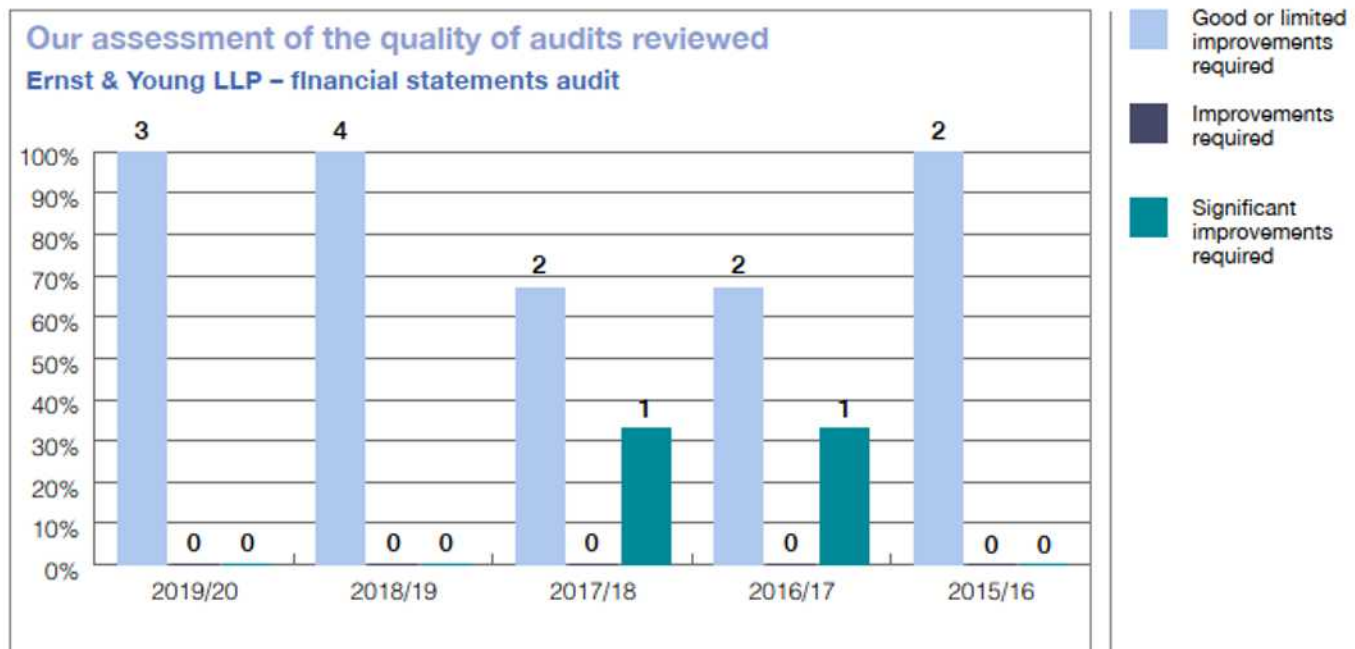
The key areas of concern requiring action by some audit firms are as follows:

- the valuation of property (including investment property);
- sufficiency of audit procedures over the occurrence and completeness of expenditure;
- the response to fraud risks;
- the impairment of receivables;
- valuation of pension assets; and
- the effectiveness of the Engagement Quality Control review.

**Financial statements audit – review trends**



**EY results**



END