



Financial Reporting Council

Major Local Audits

Audit Quality Inspection

November 2024

Foreword by Executive Director of Supervision

A robust and well-functioning local audit system is vital. It ensures that local residents, their elected representatives and all other interested parties can trust financial statements and that arrangements are in place to secure Value For Money (VFM). In addition, local auditors help to protect the public purse by identifying issues such as serious failures of leadership, governance or culture and make recommendations for improvement.

The Financial Reporting Council (FRC) welcomes the Government tabling legislation to address the significant backlog in local authority audits, following the [Written Ministerial Statement](#) issued on 30 July 2024.

This [Statutory Instrument](#), alongside a revised [Code of Audit Practice](#), introduces backstop dates for local bodies and their auditors to publish audited accounts. These measures are a necessary first step towards rebuilding the local audit system so it can provide the assurance the public deserves.

The FRC understands the potential short-term implications of these measures, including the likelihood of many disclaimed or modified audit opinions. The unprecedented circumstances facing the local audit sector required action to be taken. Reaching this point has been a collaborative effort across the entire local audit system. The FRC has worked closely with system partners including the Government and the National Audit Office (NAO) to develop these measures which received positive feedback from local bodies and audit firms.

The FRC has closely collaborated with the NAO to develop [Local Audit Reset and Recovery Implementation Guidance](#)

[notes](#) (LARRIGs). This guidance is designed to support auditors to implement these measures. We will also continue to work with the Government and other system partners on measures to address the systemic issues which led to the emergence of the backlog.

The FRC has responsibility for independently monitoring the quality of auditors' work on major local audits. This report has been prepared by the FRC's Audit Quality Review (AQR) team who exercise those responsibilities, and it sets out:

- How we will ensure our regulatory approach continues to be proportionate and directly supports the system to recover. This includes the exceptional decision to extend the pause in routine inspections of local government audits to include the financial year ended 31 March 2024, allowing auditors to focus on clearing the backlog and restoring timeliness.
- The key themes identified in our most recent audit quality inspections. We only did eight inspections because of our previous commitment to perform no further routine inspections in local government 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. As a result, our inspections were predominantly of NHS audits. 75% of the audits we inspected required no more than limited improvements. However, the local government audits we consider highest risk, and in the public interest for us to inspect, are not complete. The overall results of our inspections may change once we can inspect those audits.



Sarah Rapson
Executive Director
of Supervision

Contents

1	Overview	4
2.	Our regulatory approach	6
3.	Review of individual audits	12

The FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

© The Financial Reporting Council Limited 2024
The Financial Reporting Council Limited is a company limited by guarantee.
Registered in England number 2486368. Registered Office:
8th Floor, 125 London Wall, London EC2Y 5AS

1. Overview

The FRC is the independent body responsible for monitoring the quality of major local audits (MLAs) performed by eight firms¹. This monitoring is performed by the FRC's AQR team.

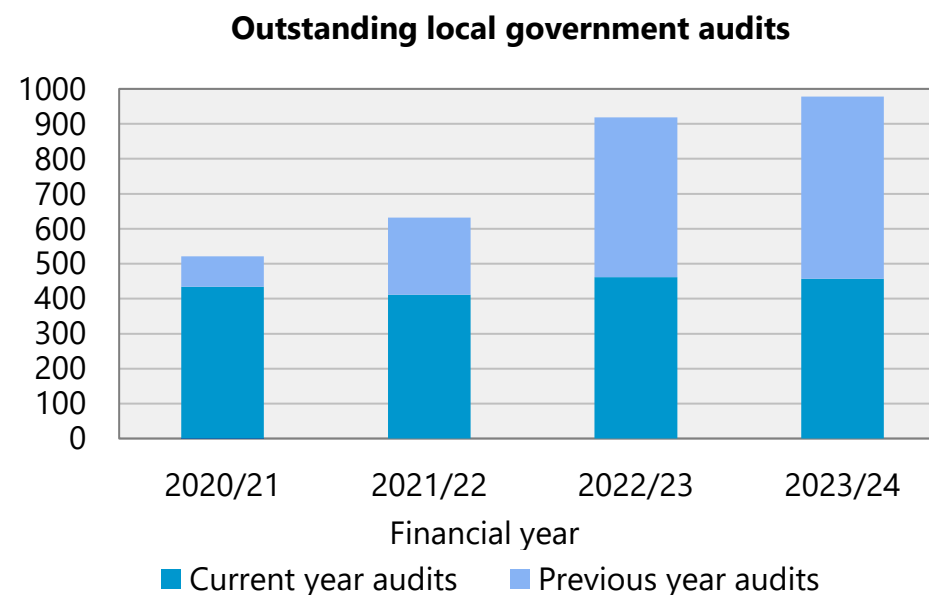
The FRC's approach to monitoring continues to demonstrate our commitment to the public interest and support for the Government's measures to clear the backlog, through:

- **Collaborating with system partners** to work with the Government to develop measures to clear the backlog.
- **Making good on our previous commitment** not to perform routine inspections of local government 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. This has allowed staff and partners at the audit firms to focus on completing as much outstanding work as possible. This commitment has resulted in a reduced number of inspections being performed in the latest cycle of inspections.

The extent of the backlog must be clearly understood to explain the exceptional changes we have made to our regulatory approach. This now includes extending our commitment not to perform routine inspections in local government up to and including the financial year ended 31 March 2024, unless there is a clear case in the public interest to do so.

Figures prepared by Public Sector Audit Appointments Ltd (PSAA) show the number of local government audits outstanding by the publishing date (or due date) for audited financial statements in financial years 2020/21 to 2022/23. To allow comparison, for the financial year 2023/24 the number of audits outstanding by 30 September 2024 is also

presented below².



There were 459 bodies opted into PSAA's appointing regime for the financial year ended 2023/24 (99% of all bodies). Approximately a third are MLAs. On average each body had two years audits outstanding as at 30 September 2024. The scale of this backlog needs to be acknowledged.

These figures are presented solely to illustrate the extent of the backlog and explain the exceptional changes we have made to our regulatory approach. It is important to understand that for financial year 2023/24, preparers and auditors are working towards the Government's backstop date of 28 February 2025 rather than any publishing date for audited financial statements. These audits are therefore not late or delayed.

¹ For the 2023/24 financial year, the eight firms are: ASM (B) Ltd, Azets Audit Services Ltd, BDO LLP, Deloitte LLP, Grant Thornton UK LLP, Ernst and Young LLP, Forvis Mazars LLP and KPMG LLP.

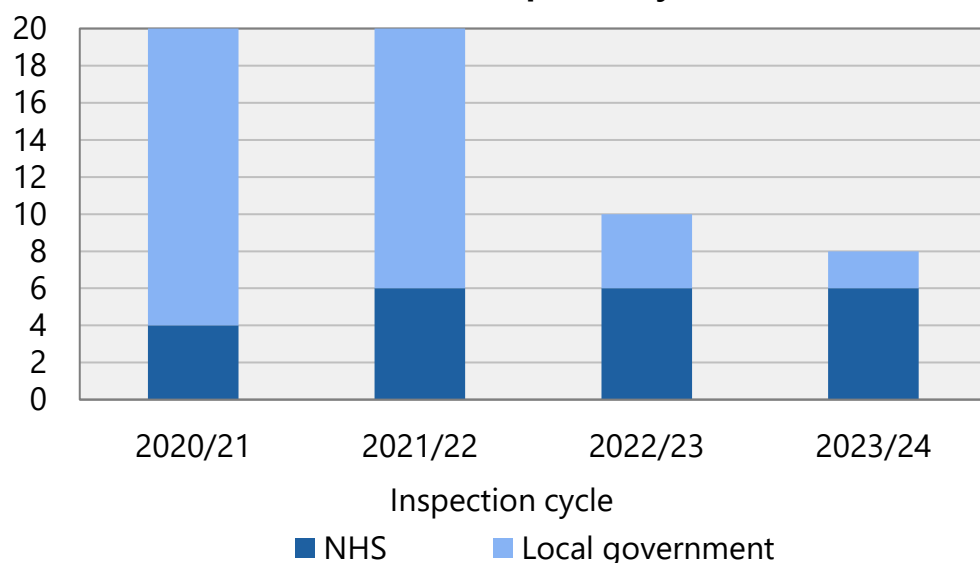
² Publishing dates for audited financial statements were 30 September in 2020/21, 30 November in 2021/22 and 30 September in 2022/23. This data only includes bodies opted into PSAA's appointing regime. While there was no publishing date for 2023/24 financial statements, comparable data on outstanding audits by 30 September 2024 has also been presented.

1. Overview (continued)

In this, the 2023/24 inspection cycle, we inspected six NHS and two local government audits across six firms. We performed no inspections at two firms. Both firms only perform one MLA so are not inspected annually. Individual audits were selected for inspection based on risk. We had either completed or were committed to performing both local government inspections prior to us deciding to pause routine inspections in that sector.

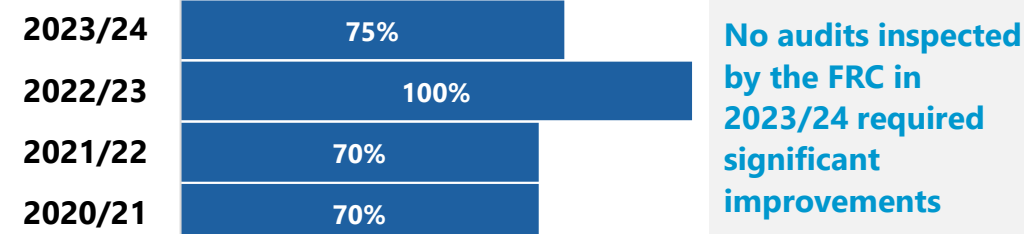
75% of the audits we inspected required no more than limited improvements and the auditor's work on Value For Money arrangements was good. However, the local government audits we consider highest risk, and in the public interest for us to review, are not complete. This means we cannot inspect them. The overall results of our audit quality inspections may change once those audits are available for us to inspect.

Number of audits inspected by the FRC

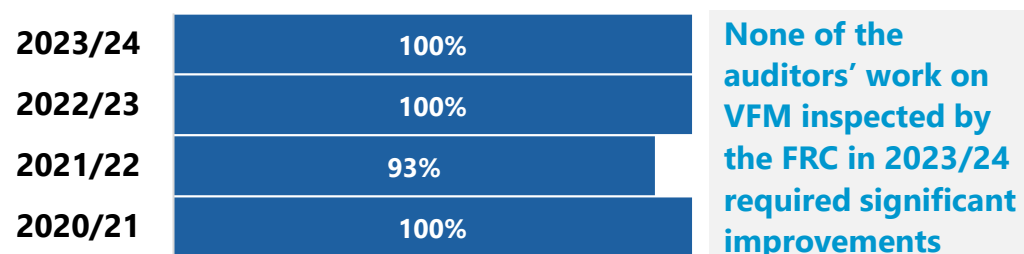


Regulatory inspection results by inspection cycle

% of audits inspected by the FRC requiring no more than limited improvements



% of the auditors' work on VFM arrangements inspected by the FRC requiring no more than limited improvements



Using this publication

This report is for general use by interested parties and has two further sections:

- **Our regulatory approach** sets out how the work of the FRC will continue to support the Government's measures to restore timeliness.
- **Review of individual audits** sets out the key themes and good practice identified in the most recent inspections performed by ourselves and the Institute of Chartered Accountants in England and Wales (ICAEW).

2. Our regulatory approach - background

In this section of the report, we provide an update on how our regulatory approach to the monitoring of audit quality will support the reset measures and recovery period.

There are a significant number of outstanding local government audits. The value of financial reporting and audit deteriorates significantly if it is not timely. It is in the public interest that management and auditors focus their efforts on areas of highest risk and interest to users, while restoring timeliness as soon as possible.

Our principles

We have adhered to two key principles when developing our monitoring approach:

- **Supporting the system to restore timeliness:** in local government, our monitoring activities will support the measures developed by the Ministry of Housing, Communities and Local Government (MHCLG) to clear the backlog and embed timely delivery of future audits. There have been no delays in NHS audits that are significant enough to require similar considerations.
- **Driving improvements in audit quality:** by holding to account those responsible for delivering local audit.

Timeliness is a component of audit quality. Until the timeliness of local government financial reporting and audit is sustainably recovering, our monitoring will be weighted towards supporting the system to recover.

The measures implemented to clear the backlog

A high-level summary of the key measures is:

- **Reset measures:** to clear the backlog by introducing a statutory backstop date of 13 December 2024 for all local government audits up to and including the year ended 31 March 2023. Audit opinions will be modified if work is not complete at the backstop date.
- **Recovery period:** implementation of further statutory backstop dates until the year ended 31 March 2028 to reduce the likelihood of the backlog re-emerging and allow auditors to rebuild assurance over multiple years. This is designed to enable a gradual return to unmodified audit opinions. This will require firms to develop methodologies for resolving or recovering from audit opinions that were modified at previous backstop dates. The Government and system partners want the local audit system to recover as quickly as possible. The aspiration in the Written Ministerial Statement issued on 30 July 2024 is that modified opinions driven by the backstop arrangements are limited, in most cases, to the next two years (up to and including the backstop date for financial year 2024/25 on 27 February 2026).
- **Value For Money arrangements:** which require auditors to produce a single commentary covering all outstanding years up to 31 March 2023. In subsequent years, auditors will provide an update on their work on VFM arrangements³ by 30 November.
- **Additional powers and responsibilities:** encouraging auditors to use their powers³ to raise awareness of pervasive accounting or other public interest issues.

³ Guidance explaining the scope of the auditors' work on VFM arrangements, and auditors' additional powers and responsibilities is available [here](#).

2. Our regulatory approach – reset measures

Inspections for financial years up to and including the year ended 31 March 2023

In December 2023, the FRC committed to performing no further routine inspections of major local audits in local government 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.

Why?

Performing no further routine audit quality inspections in local government for financial years up to and including the year ended 31 March 2023 is consistent with the principle behind the measures, to “reset” the system and accept reduced assurances over prior periods.

This allows staff and partners at the audit firms to focus on completing as much outstanding work as possible. This is in the public interest. We reserve the right to perform an inspection, if we consider it would clearly serve the public interest to do so.

This applies to local government only. We have continued to inspect a sample of NHS MLAs.

Since making this commitment, we have selected no audits for inspection in local government.

Why?

The local government audits we consider exceptionally high risk, and in the public interest for us to inspect, are not complete. This means we cannot inspect them.

For clarity, in the 2023/24 inspection cycle, we inspected six NHS and two local government audits. The results of these inspections are reported in section 3. We had either completed or were committed to performing both local government inspections prior to us deciding to pause routine local government inspections.

How we will determine what is in the public interest.

The FRC has published [general principles](#) for considering the public interest in our work. Additional considerations may be needed for this specific regulatory function, where there are a wide set of individual circumstances that could constitute the public interest.

We have not provided examples because of the risk of unintended consequences, primarily that some local auditors may become unduly risk averse in any areas we highlight. A risk averse approach from local auditors may hinder the timely recovery of some audits which is contrary to our intent.

2. Our regulatory approach – recovery period

There are risks to the successful implementation of the recovery period. Audit firms have informed us of many reasons for the issues with timeliness, including their own resourcing constraints among local audit specialists; specific accounting issues; the increasing complexity of financial statements; and delays caused by management.

Management have a vital role to play in supporting system recovery. Management are responsible for the timely production of good-quality draft financial statements and working papers which are fundamental to the ability to conduct a timely audit.

Observations - complexity of financial reporting requirements in local government.



Efforts to restore timely financial reporting and audit would benefit significantly from an overall reduction in the work that preparers and auditors must complete. Simplification of financial reporting requirements is critical to support the system to recover as quickly as possible and make the financial statements more accessible to users.

Inspection of audit methodologies developed by firms for recovering from opinions modified at a backstop date

As part of our firmwide inspection procedures, we will inspect and compare the firms' methodologies. This will allow us to provide the firms constructive feedback for efficiency and improvement. These inspections will not be time consuming for firms and would not be

graded, so are a safer space for firms as they begin to implement their methodologies. We will report the findings to firms and summarise them in our annual report on MLA audit quality. We have discussed this with audit firms and the response has been positive. To inform our understanding of the methodologies, our inspections may consider how they have been applied in practice to individual audits.

Inspections for the financial year ended 31 March 2024

The FRC has decided not to perform routine inspections of major local audits in local government for the financial year ended 31 March 2024, unless there is a clear case in the public interest to do so.

Why?

The backstop date for financial year 2023/24 audits is 28 February 2025. This is shortly after the backstop date for financial years up to and including 2022/23 on 13 December 2024.

Given the proximity of the backstop dates, we extend our previous commitment to allow staff and partners at the audit firms to focus on completing as much outstanding work as possible. This is in the public interest. We reserve the right to perform an inspection if we consider it would clearly serve the public interest to do so. This applies to local government only. We will continue to inspect a sample of NHS MLAs.

2. Our regulatory approach – recovery period (continued)

Inspections for subsequent financial years

The FRC currently plans to:

Perform six NHS inspections each year.

Why?

This is reasonable and proportionate to the number of MLAs. It is also consistent with the number of inspections performed in previous cycles. There is no backlog in this sector significant enough to impact our approach.

Gradually increase routine inspections in local government from zero for the year ended 31 March 2024 to fourteen, the phasing of which will reflect the rate at which the system recovers.

This would be a total of twenty inspections across NHS and local government each year.

Why?

Fourteen inspections is reasonable and proportionate to the number of local government MLAs. It is also consistent with the number of inspections performed in previous cycles. This presumes the local audit system will gradually recover. If it does not, or it only partially recovers, we will reconsider our approach and perform fewer routine inspections than indicated above.

We will not routinely inspect audits that have been disclaimed at the backstop date because the audit work was incomplete, unless there is a clear case in the public interest to do so.

Why?

If an auditor disclaims an opinion at the backstop date, the auditor has not been able to obtain sufficient appropriate audit evidence on which to base an opinion. In most cases, the public interest will be best served by allowing the firm to focus on performing the audit work needed to resolve the disclaimer in a future year.

We may supplement these routine inspections with additional focused inspections in areas such as the auditors' work on VFM arrangements and the auditors' additional powers and responsibilities.

Why?

System partners have identified this work as high priority given its importance for identifying concerns early, allowing them to be addressed. This priority has been heightened recently by high profile financial, commercial and governance failings, coupled with well publicised budgetary pressures leading to more section 114 notices⁴ being issued.

Note: in setting an indicative number of inspections, we have made certain planning assumptions. For example, that the overall number of MLAs does not significantly change. If our planning assumptions change, so may inspection numbers.

⁴ The Chief Finance Officer of a local authority has a duty to issue a section 114 notice if they believe a council is unable to set or maintain a balanced budget. It puts spending controls in place and prohibits any new spending at that council which is not required to provide a statutory service. The council must meet within 21 days and decide what action to take in response.

2. Our regulatory approach – recovery period (continued)

How do we ensure the scope of individual inspections is proportionate?

The role of the FRC's AQR team is to assess the quality of audit work against relevant and applicable auditing standards, and any additional requirements set out in the Code of Audit Practice. An AQR inspection will ensure a firm has complied with the requirements of the Code of Audit Practice and will not challenge a firm that adheres to any associated statutory guidance. This includes the Local Audit Reset and Recovery Implementation Guidance notes (LARRIGs) which the FRC has endorsed.

Local audit inspections are undertaken by specialists who have a background in local audit. When performing an inspection, we do not inspect an entire audit but rather focus on areas considered higher risk. Our reviews of individual audits place emphasis on the appropriateness of key audit judgements made in reaching the audit opinion and the sufficiency and appropriateness of the audit evidence obtained. The scoping of individual inspections considers a range of factors, including, but not limited to:

- AQR's local audit Areas of Focus.
- Previous inspection findings.
- The significant risks, other risks and findings identified by the auditor.
- Discussions with the audit committee chair on all inspections.
- Matters we consider significant in the sector. Examples in local government include the impact of commercial activity; investment property valuation; the disclosure of senior officer remuneration; the appropriateness of capital expenditure; and adjustments between accounting and funding basis including minimum revenue provision.

What are our local audit Areas of Focus?

These are areas that any audit quality inspections we perform will pay particular attention to. Because of the pause in performing routine local government inspections, our local audit Areas of Focus for the financial year ended 31 March 2024 are focused on the NHS. They are:

- Fraud risks. This is the risk that the financial statements are materially misstated due to fraudulent financial reporting or misappropriation of assets.
- Operating expenditure.
- Financial sustainability (VFM arrangements).

None of these areas are mandatory and inspection teams use their professional judgement when determining whether to scope these areas into individual inspections or not.

If we inspect a local government audit, the inspection will focus on the matter(s) that gave rise to there being a clear case in the public interest to perform the inspection.

Are the valuation of operational property or the valuation of net defined benefit pensions assets / liabilities Areas of Focus?

No, these are not Areas of Focus. However, as management are required to prepare these valuations and auditors are required to audit them, it would not be appropriate to completely exclude them from the scope of future inspections. The decision to include these areas within the scope of an individual inspection will be dependent on risk and assessment of the factors listed on the left.

2. Our regulatory approach – recovery period (continued)

Reporting the results of our inspections during the recovery period

From discussions with the audit firms and other stakeholders, we understand that there are heightened reputational and financial risks associated with performing MLAs. The factors contributing to those risks may include:

- AQR reporting the results of inspections directly to Audit Committee chairs (on a confidential basis).
- AQR reporting results publicly (including by individual firm).
- AQR findings can lead to enforcement action under the [Auditor Regulatory Sanctions Procedure](#) (ARSP), although sanctions can only be imposed on audit firms, not individuals.

This can result in firms putting additional risk management arrangements in place for MLAs. For example, in the [October 2022 MLA Audit Quality Inspection report](#), we identified that 59% of MLAs had Engagement Quality Control Reviewers (EQCRs) compared to 1% of other local audits.

In response to these factors, we have considered whether we should make any changes to our approach.

Reporting to Audit Committee chairs

We will continue to report the results of all individual inspections to Audit Committee chairs on a confidential basis. This reporting is already balanced, including both findings and good practice.

Why?

We believe that transparency with those charged with governance at

local bodies, on a confidential basis, is appropriate. It drives improvements in audit quality and is relevant to the Audit Committee's annual review of the effectiveness of external audit.

Public reporting

We will continue to report the results of all inspections publicly, including both findings and good practice. However, during the recovery period we will only report findings by sector and not by firm.

Why?

This is fair given we are likely to be performing a significantly reduced number of inspections at each firm. This means that the results are less likely to be indicative of overall audit quality across a firm's entire portfolio of MLAs. This should also reduce the reputational risk and regulatory pressure on local auditors while the system recovers.

Enforcement action

Since 2016, sanctions under the ARSP have been imposed twice.

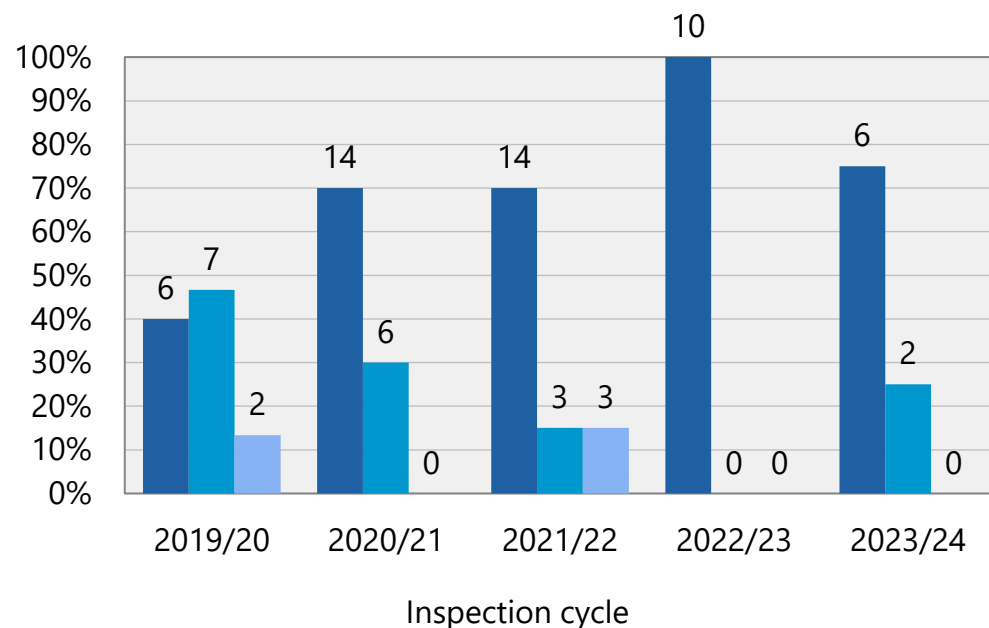
Why?

We will only act when we consider it necessary to protect the public interest. We will not perform routine inspections of MLAs in local government for financial years up to and including the year ended 31 March 2024, unless there is a clear case in the public interest to do so. This significantly reduces the risk to audit firms that AQR findings from local government inspections will lead to enforcement action, while ensuring that where the FRC must act to protect the public interest, it can.

3. Review of individual audits

Our assessment of the quality of financial statements audits:

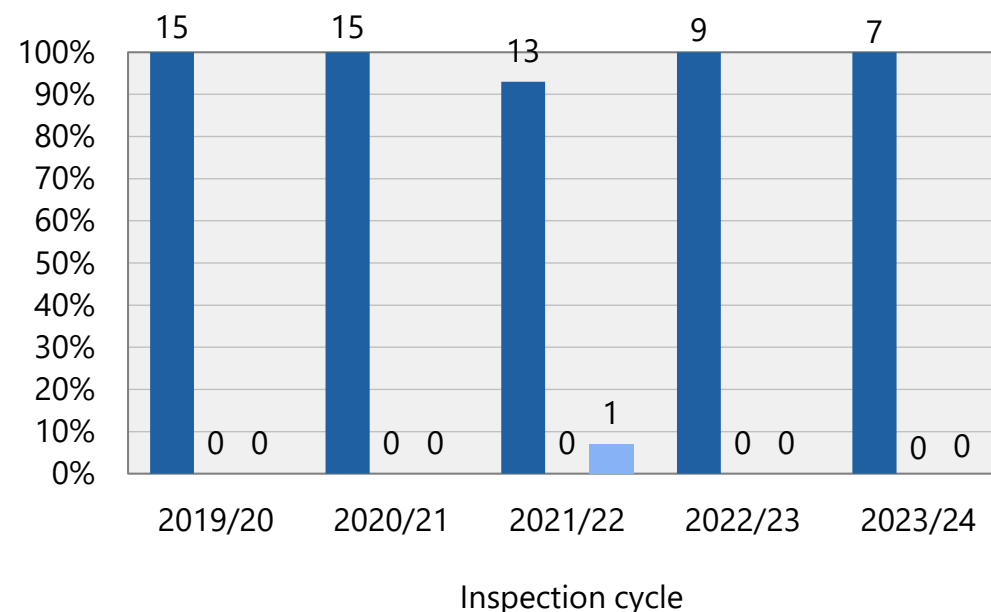
We reviewed eight individual audits this year and assessed six (75%) as requiring no more than limited improvements.



■ Good or limited improvements required ■ Improvements required ■ Significant improvements required

Our assessment of the quality of work on VFM arrangements:

All the auditors' work on VFM arrangements were assessed as requiring no more than limited improvements. Results have been consistently good across all firms.



The proportion of audits falling within each category reflects a wide range of factors including our commitment not to perform further inspections of routine local government audits for financial years up to and including 2022/23, unless there was a clear case in the public interest to do so. This means that the results of our recent audit quality inspections predominantly reflect the quality of NHS audits. The local government audits we consider highest risk, and in the public interest for us to review, are not complete. When AQR is able to resume inspections of higher risk local government audits, including those with heightened financial sustainability risks or exposure to commercial risk, our assessment of audit quality may change. Because of these restrictions, and given the sample sizes involved, our inspections cannot provide a complete picture of the firms' performance, and it is difficult to comment on year-on-year trends.

3. Review of individual audits (continued)

We set out below the key themes where, based on our inspections, we believe improvements in audit quality are required. We share these to promote improvements in audit quality and to enable all local auditors to consider if such findings are relevant to their circumstances. Key themes are findings assessed as requiring:

- Improvements or significant improvements on an individual audit.
- Limited improvements on individual audits but included due to the extent of occurrence across the audits we inspected.

We have not reported the work undertaken on firm-wide controls or procedures in this report. This can be found in the [Audit Firm Specific Reports](#) for Tier 1 audit firms and the [Audit Quality Inspection and Supervision Report](#) for Tier 2 and Tier 3 audit firms.

Key themes	Why it is important
Improve the audit of group accounting	Some local bodies make strategic or commercial investments. In these circumstances, accurate group accounts are critical to permit users of the financial statements to assess a body's stewardship of public money and the performance of the investment.
Improve the evaluation of uncorrected misstatements, including whether they are material by nature	To reach an appropriate opinion, auditors must evaluate whether the implications of uncorrected misstatements are material to users by virtue of their nature, and not simply compare them to materiality for the financial statements as a whole.
Improve substantive analytical procedures	Substantive analytical procedures can be more effective and efficient than tests of details. Substantive analytical procedures depend on auditors setting robust and reliable independent expectations, against which actuals can be compared.

3. Review of individual audits (continued)

Improve the audit of group accounting



We raised a finding on one audit assessed as requiring improvements.

- **Arithmetical errors:** A joint venture was consolidated using the equity method. The audit team did not identify a material arithmetical error in the share of a joint venture's profit or loss for the year, as reported in the group accounts.
- **Material unexplained differences:** The audit team could not reconcile a material unexplained difference between the investment in a joint venture reported in the group accounts and the underlying share of the investee's net assets. Consequently, the audit team could not demonstrate that the investment in a joint venture was materially accurate.
- **Impairment:** The audit team did not evaluate the available evidence which indicated an impairment test was required for the investment in a joint venture. No such test was performed by management.

Improve the evaluation of uncorrected misstatements, including whether they are material by nature



We considered the evaluation of uncorrected misstatements on all audits. We raised two findings, including one assessed as requiring improvements.

- **The impact of uncorrected misstatements on a local auditor's wider responsibilities:** The audit team did not sufficiently evaluate an uncorrected misstatement. Its value was below materiality for the financial statements as a whole. However, correction would have turned a reported surplus into a deficit. In these circumstances, management would have needed to obtain an adjustment to its allocations, or the auditor would have needed to qualify the regularity opinion and issue a referral to the Secretary of State. As such, the item should have been considered material by virtue of its nature.
- **Remuneration and staff report (subject to audit):** For this sensitive disclosure, the audit team did not appropriately evaluate whether an uncorrected misstatement was material by virtue of its nature.

3. Review of individual audits (continued)

Substantive analytical procedures



We reviewed substantive analytical procedures on six audits. We raised findings on two audits that were assessed as requiring limited improvements.

- **Arithmetical errors:** When setting its expectation, the audit team did not correctly calculate indexation. If calculated correctly, the difference between its independent expectation and actual was outside the auditor's acceptable range.
- **Setting an inappropriate expectation:** The audit team did not set an independent expectation. The expectation was set using the figure that the procedure was designed to test.

Neither finding was assessed as requiring more than limited improvements due to the risk of material error being low or the extent of alternative audit evidence obtained.

What do we mean by 'good practice'?



When we identify good practice, it typically reflects an innovative or effective way that an auditor or audit firm has found to address a requirement, or to respond to the specific circumstances robustly. We share these to promote effectiveness and to enable others to consider such approaches, if relevant in their circumstances. We identified some good practice in the audits we inspected, including:

- **Professional scepticism and challenge:** A key estimate in the financial statements related to a legal provision. The audit team clearly demonstrated professional scepticism and robustly challenged management on key assumptions. As a result, the audit team identified and reported a misstatement to the Audit Committee.
- **Valuation of investment properties:** An auditor's expert was engaged to help evaluate management's assumptions on the largest and most complex valuations. The audit team tested the remaining valuations themselves. This was a proportionate response to the level of risk. Errors and valuations outside a reasonable range set by the auditor's expert were thoroughly evaluated and reported, as was any potential impact on the population of untested properties.
- **Oversight of component auditor:** The audit team demonstrated extensive oversight of the component auditor. They issued comprehensive instructions and thoroughly reviewed the component auditor's work. The audit team met the component auditor regularly, with extensive involvement of senior members of both audit teams. This was an appropriate response to the level of risk at a highly material and commercial component.
- **The Auditor's Annual Report:** On three audits, VFM reporting was comprehensive and well-structured. Communication was clear, including the nature of improvement recommendations identified and their impact on the audited body.

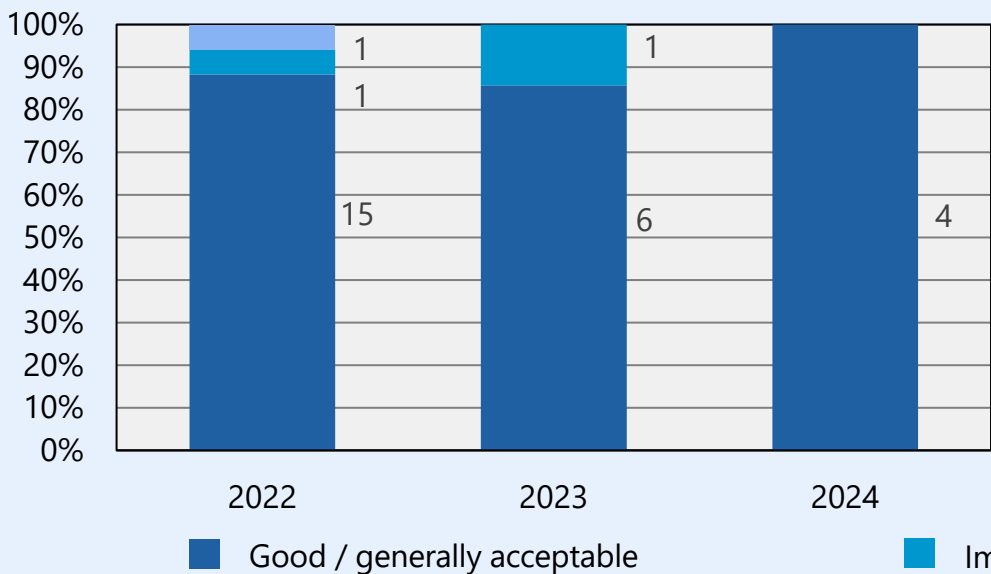
3. Review of individual audits: monitoring by the Quality Assurance Department of ICAEW

The FRC granted ICAEW a recognition order as a recognised supervisory body (RSB) in November 2015. Under this framework, ICAEW is responsible for the licensing, registering and monitoring of auditors who carry out audits of relevant authorities, as defined in schedule 2 of the Local Audit and Accountability Act 2014. ICAEW reviews audits outside the FRC’s scope. ICAEW does not undertake work on the firm-wide controls or procedures for the firms in this report.

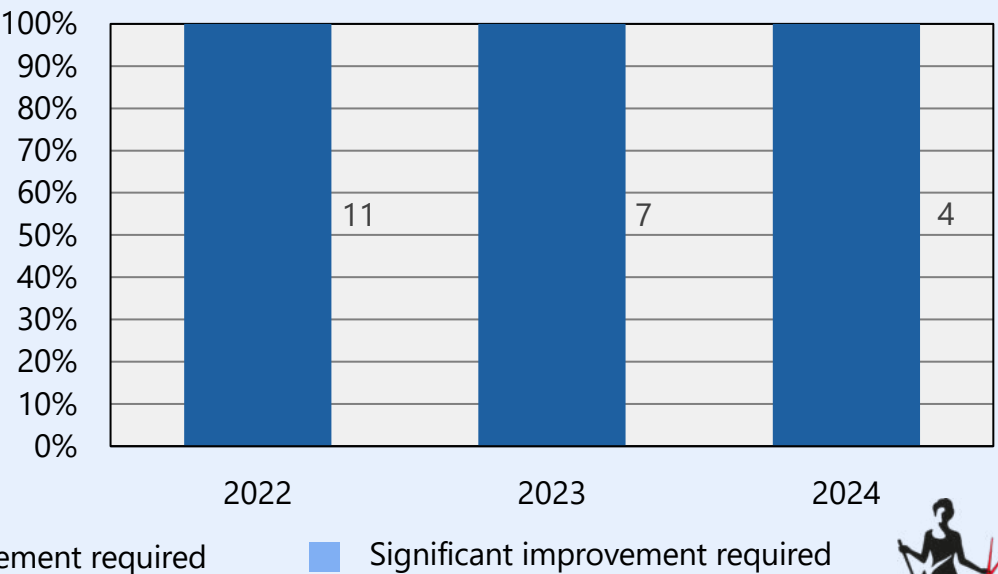
ICAEW’s reviews are risk-based, with the aim of reviewing a representative sample of a firm’s local audit portfolio over a six-year cycle. Not all firms are reviewed every year. In 2024 it has completed monitoring reviews of 2022/23 year-end audits on Ernst & Young LLP (two files) and Grant Thornton UK LLP (two files). This relatively small number of file reviews reflects ICAEW’s commitment, alongside the FRC, not to carry out routine inspections of local audits for financial years up to and including 2022/23 unless there is a clear case in the public interest to do so.

Detailed reports summarising the audit file review findings and any follow-up action proposed by each firm have been considered by ICAEW’s Audit Registration Committee. Combined results of ICAEW’s local audit reviews for the last three years are set out below.

Financial audit



VFM arrangements



ICAEW assesses audit quality as ‘good’, ‘generally acceptable’, ‘improvement required’, or ‘significant improvement required’. File selection is generally focused on higher risk and more complex audits, but in 2023 and 2024 the range of bodies available for review has been significantly restricted due to the backlog of outstanding unaudited accounts in the local audit system. Given the sample size and backlog, these results and changes from one year to the next cannot be relied upon to provide a complete picture of performance or overall change in audit quality.



3. Review of individual audits: monitoring by the Quality Assurance Department of ICAEW

The quality of audit work reviewed across both firms was of a good standard, with all reviews graded either good or generally acceptable. There was good practice identified across a range of audit areas.

Work on VFM arrangements continues to be of a good standard, with all reviews being either good or generally acceptable.

Key findings



- There were no key findings.

Good practice



- Well designed and documented audit work on fixed asset valuations, which clearly showed appropriate challenge of valuer assumptions. This included direct engagement with the management expert, and clear corroboration of relevant assumptions and key inputs such as rent yields, estimated building life and floor area.
- Examples of clear and informative documentation reconciling financial statement figures to detailed audit testing.

Firms reviewed in each year

Firm	2024	2023	2022
BDO LLP		*	
Deloitte LLP		*	
Ernst & Young LLP	*		*
Grant Thornton UK LLP	*		*
KPMG LLP		*	
Mazars LLP		*	
Pricewaterhouse Coopers LLP			*





Financial Reporting Council

**Financial
Reporting Council**

8th Floor
125 London Wall
London EC2Y 5AS
+44 (0)20 7492 2300

www.frc.org.uk

Follow us on
LinkedIn
or **X** [@FRCnews](https://twitter.com/FRCnews)