



Hinckley & Bosworth Borough Council

Forward timetable of consultation and decision making

Audit Committee 30 November 2022

Wards affected: All Wards

FINANCIAL REPORTING COUNCIL'S REVIEW OF EXTERNAL AUDIT QUALITY 2021/2022

Report of Head of Finance (Section 151 Officer)

1. Purpose of report

- 1.1 To present to the Audit Committee a summary of quality reviews done by the FRC in relation to external Audit Suppliers, including the Council's own External Audit Supplier Ernst and Young (EY)

2. Recommendation

- 2.1 The report is noted

3. Background to the report

- 3.1 The Financial Reporting Council (FRC) is the designated the Competent Authority for audit regulation in the UK, and responsible for audit quality inspections. The report scores on a regular basis that are categorized as either:

- Good or limited improvements required
- Improvements required
- Significant improvements required

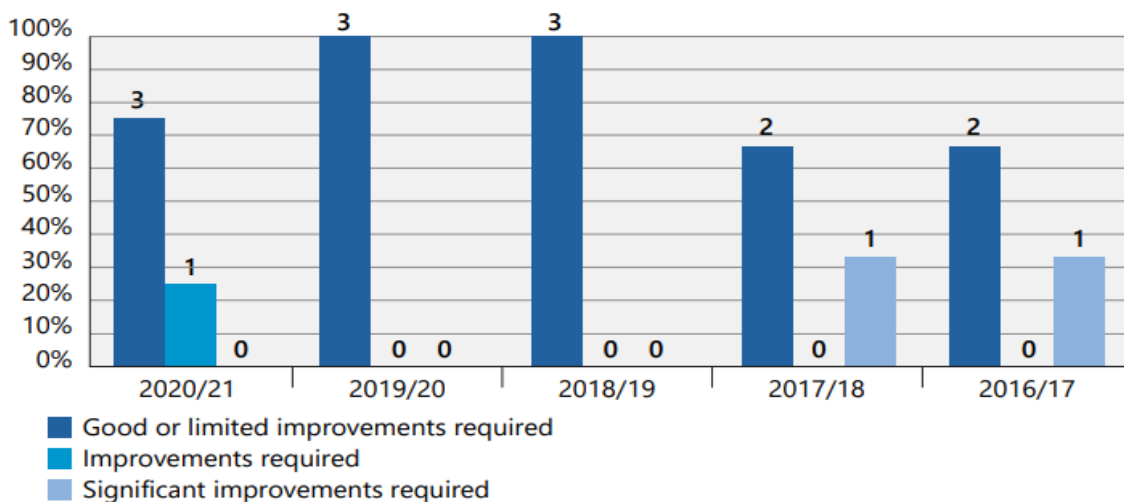
The first two categories are acceptable for the purposes of a safe opinion, the last can indicate a more fundamental problem. However, all should be in the top category.

- 3.2 The last FRC quality inspection in relation to public sector related to the 2020/21 audit year. This inspection covered Grant Thornton UK LLP (nine audits reviewed), Ernst & Young LLP (four audits reviewed) and Mazars LLP

(four audits reviewed). The position for EY is given in the table below, which is from the FRC's Major Local Audits, October 2021, Audit Quality Inspection report.

Ernst & Young LLP

Our assessment of the quality of audits reviewed – financial statements audit



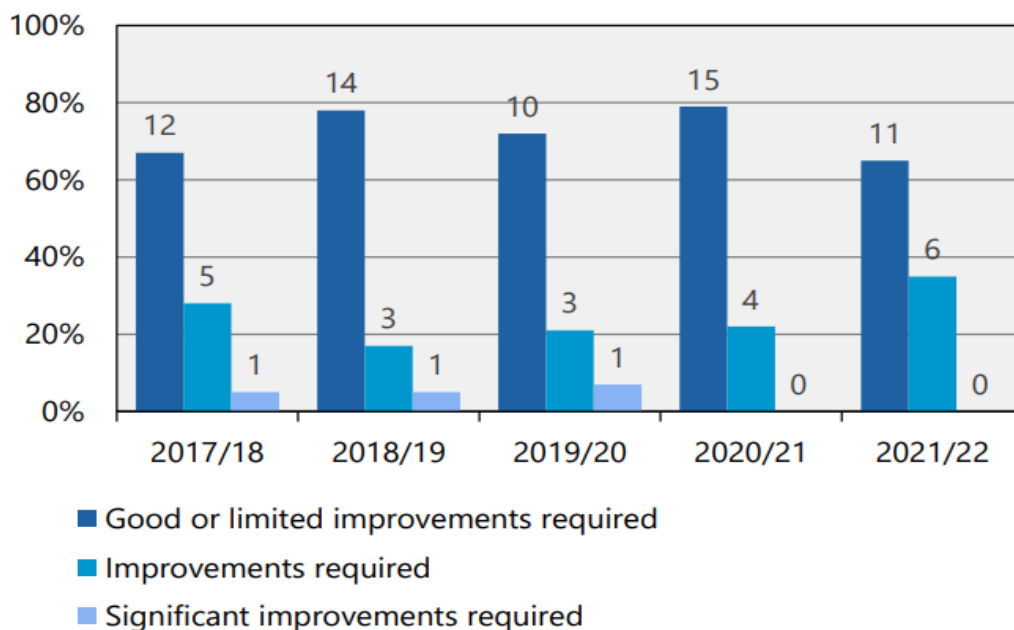
https://www.frc.org.uk/getattachment/97b5a417-d9bf-4649-b3c3-3ae49a350fe7/FRC-AQR-Major-Local-Audits_October-2021.pdf

- 3.2 The audit quality results for FRC's inspection of the four EY opinion audits assessed one as requiring improvements, with 3 (75%) in the top classification. No audits were assessed as requiring significant improvements. In previous years, the firm had increased both local audit training and the rigour of its audit methodology. These actions have contributed to the improvements in the firm's quality results since 2017/18. For the Value for Money (VFM) conclusion element of EY's work, all audits were assessed as good
- 3.2 Following table below gives the companies to other Audit firms reviewed in relation to the 2020/21 audit year.

Opinion Audit	Good or limited improvements required	Improvements required	Significant improvements required
Ernst & Young	3 (75%)	1 (25%)	0
Grant Thornton	6 (67%)	3 (33%)	0
Mazars	4 (100%)	0	0
VFM conclusion			
Ernst & Young	4 (100%)	0	0
Grant Thornton	4 (100%)	0	0
Mazars	4 (100%)	0	0

- 3.3 The FRC have done a more recent review on Audit Quality in the Commercial Sector for 2021/22. Care needs to be taken in reading over the results to the public sector but does give some insight into more recent pressure being faced by External Audit firms and its impact on audit quality. This only covers opinion audits as VFM is not applicable to the commercial sector. The report covered seven Tier 1 firms, which were BDO, Deloitte, Ernst & Young (EY), Grant Thornton (GT), KPMG, Mazars, and PricewaterhouseCoopers LLP (PwC).
- 3.4 For EY the table below gives the FRC's findings, which show a worsening position for 2021/22 in the quality of Audit. The FRC inspectors noted that any inspection cycle with audits requiring more than limited improvements is a cause for concern and indicates the need for a firm to take action to achieve the necessary improvements. The FRC did not note any systemic reasons for our inspection results but did comment that that EY had identified the need for more effective coaching from senior levels which has been an operationally challenging aspect of remote working.

Our assessment of the quality of audits reviewed: Ernst & Young LLP



Source: [FRC Ernst & Young LLP Public Report July 2022](#)

- 3.5 In response EY noted their disappointment in FRC inspection results, which were out of line with the improved results seen in other inspections including our own internal inspections. The period covered by this review included the most difficult backdrop from the uncertainty brought about by COVID-19 and its impact on businesses, as people navigated lockdown, remote working, and the transition to hybrid working. As noted by the FRC, changes in results from one year to the next are not necessarily indicative of an overall reduction in

audit quality at the firm. However, they are committed to noting the report and making improvements as required.

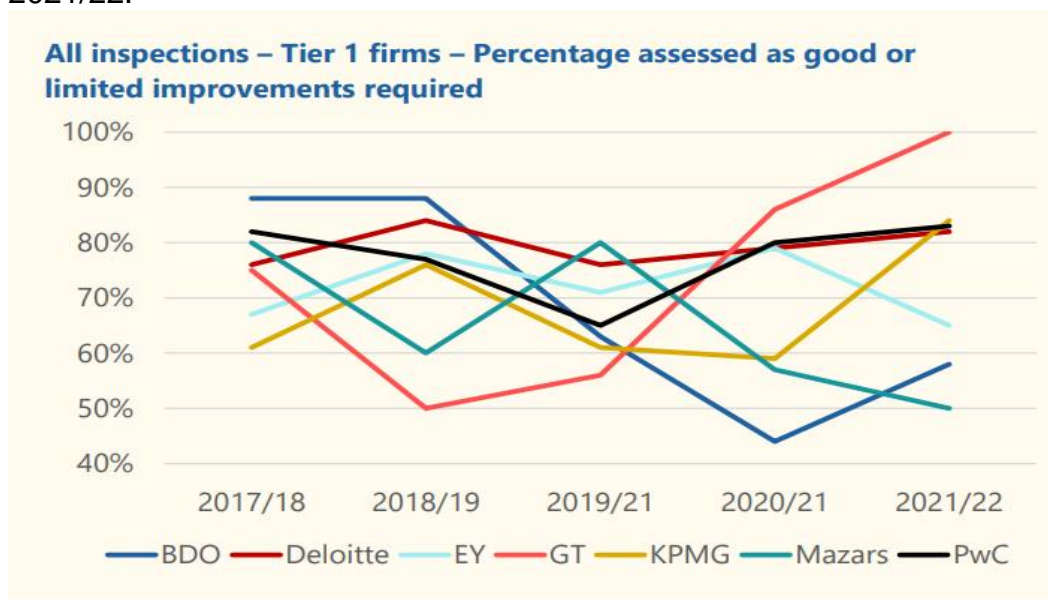
3.6 The Table below noted the performance for 2021/22 in relation to all the firms reviewed.

Opinion Audit	Good or limited improvements required	Improvements required	Significant improvements required
KPMG	16	3	0
PWC	15	3	0
Deloitte	14	3	0
Ernst & Young	11	6	0
BDO	7	1	4
Mazars	4	1	3
Grant Thornton	5	0	0

Opinion Audit	Good or limited improvements required	Improvements required	Significant improvements required
KPMG	84%	16%	0%
PWC	83%	17%	0%
Deloitte	82%	18%	0%
Ernst & Young	65%	35%	0%
BDO	58%	8%	33%
Mazars	50%	13%	38%
Grant Thornton	100%	0%	0%

Source FRC: [Auditors | Audit Quality Review | Audit Firm Specific Reports | Financial Reporting Council \(frc.org.uk\)](https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports)

3.7 The FRC provided a graph of the historical performance of the inspected firms which is given below, which shows a fall in EYs score between 2020/21 and 2021/22.



3.7 The FRC report noted:

The inspection results at two firms (BDO and Mazars) remain unacceptable. These firms have been growing too fast, picking up higher risk audits being dropped by their peers, without adequate controls to ensure high quality audits.

BDO and Mazars continue to grow and, given this and the results of their inspections in 2020/21, we again increased the sample of audits we selected for review at each firm. Four of the eight audits that we reviewed at Mazars and five of the 12 audits that we reviewed at BDO needed more than limited improvements. Three and four audits at Mazars and BDO respectively needed significant improvements. These results are worse than last year and suggest a downward trend which is unacceptable.

3.8 Both firms responded they will address the issues noted and were disappointed with the results.

3.9 As noted above, a direct comparison between the commercial audit and public sector audit reviews is not possible, but members are aware of the significant time delays experience at the council due in part to EY staff resources issues.

4. Exemptions in accordance with the Access to Information procedure rules

4.1 Report is taken in an open session.

5. Financial implications [IB]

5.1 Contained within the body of the report.

6. Legal implications [MR]

6.1 The legal implications are contained within the report.

7. Corporate Plan implications

7.1 Adoption of the proposal in this paper will contribute to the achievement of the following Corporate Aim of Empowering communities.

8. Consultation

8.1 None

9. Risk implications

9.1 It is the council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

- 9.2 It is not possible to eliminate or manage all risks all the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.
- 9.3 There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place to achieve successful transition to the new arrangement in a timely and efficient manner.

10. Knowing your community – equality and rural implications

- 10.1 The Financial Statements and the audit process will allow local communities and groups to review the financial performance and stewardship of the Council.

11. Climate implications

- 11.1 None directly from this report.

12. Corporate implications

- 12.1 By submitting this report, the report author has taken the following into account:

- Community safety implications
- Environmental implications
- ICT implications
- Asset management implications
- Procurement implications
- Human resources implications
- Planning implications
- Data protection implications
- Voluntary sector

Background papers:	None
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