FRC

Financial Reporting Council

Major local audits

Audit Quality Inspection

December 2023

Foreword by Executive Director of Supervision

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Executive Director of Supervision, FRC

By the end of September 2023, the backlog of local government audits was nearly a thousand. This is completely unacceptable.

Timeliness is an important part of audit quality. Achieving consistent high audit quality is not only in the best interest of audit firms but also in the public interest, and we believe that fair, proportionate, and assertive engagement with firms is critical to protecting that interest.

As incoming shadow system leader, a key priority for the FRC has been supporting the Department for Levelling Up, Housing and Communities to develop their package of measures to clear the backlog and restore timely completion of audits. We expect these measures to be consulted on by the Department. We encourage all stakeholders to have their say on these crucial proposals.

Alongside our role as incoming shadow system leader, the FRC has a regulatory responsibility to monitor the quality of auditors' work on major local audits.

We are very disappointed that our ability to inspect higher profile and higher risk audits has been so severely restricted by the backlog. Most audits are incomplete, in some cases for several years. Successful implementation of the government's proposed measures should remove this restriction. This publication focuses on reporting of our inspection activity, including:

- How we will ensure our audit quality inspections support the government's proposed measures.
- The principal findings from our recent audit quality inspections.

While all ten inspections we performed were assessed as good or limited improvements required, we could only select from about 20% of the local government audits in our scope. When we are able to inspect the audits of higher profile and higher risk local government bodies, our assessment of audit quality may well reduce.

Introduction: FRC's objective of enhancing audit quality

Timeliness is important. The timely delivery of high-quality financial reporting and external audit is vital to provide the accountability, transparency, and assurance that local people and their elected representatives deserve. Furthermore, as local bodies face financial pressure, and some engage in increasing commercial activity, it is in the public interest that management and auditors identify and respond to emerging risks on a timely basis.

Entity management and those charged with governance make an important contribution to a robust and timely audit. A well-governed entity, with effective internal controls and accurate and timely financial reporting, helps underpin a high-quality audit. While there is some shared responsibility for the quality of audits, we expect the audit firms' work to be high-quality, regardless of any identified risk in relation to management, those charged with governance or the entity's financial reporting systems and controls. A high-quality audit in those circumstances may require enhanced professional scepticism and timely use of additional powers and duties[1].

We are very disappointed that our ability to inspect audit quality at the firms has been so severely restricted by the significant and persistent backlog of incomplete audits in local government. The shortage of finished local government audits meant we had to significantly reduce the number of inspections we performed. The local government audits we consider highest risk were also not available for us to inspect.

The Financial Reporting Council (FRC) is the independent body responsible for monitoring the quality of major local audits[2] performed by six firms[3]. This monitoring is performed by the FRC's Audit Quality Review (AQR) team. Our inspection of major local audits aims to hold firms to account for making the changes needed to safeguard and improve audit quality.

Auditors have a vital role in upholding trust and maintaining public confidence in local public bodies (principally local government and health bodies) 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. The FRC's objective is to achieve consistently high audit quality so that the public can have confidence in the work of local auditors. Timeliness is an important part of audit quality. To support our objective, we have regulatory 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.
- Bring enforcement action against auditors, if appropriate.

[1] Further information on auditor's additional powers and responsibilities is available in Auditor Guidance Note 4 issued by the National Audit Office.
[2] A major local audit is a relevant authority that either:
- Has total income or expenditure in excess of £500 million, or
- Maintains a local authority pension scheme with at least 20,000 members or gross assets of £1,000 million or more.

[3] The six firms are Grant Thornton UK LLP, Ernst and Young LLP, Mazars LLP, KPMG LLP, BDO LLP and Deloitte LLP.

Contents

1. Changes to our regulatory approach

The FRC's AQR team are supportive of the measures being developed by the Department for Levelling Up, Housing and Communities (DLUHC)[4] to clear the backlog and embed timely delivery of future audits. We will amend our approach to inspections accordingly.

The measures being developed to clear the backlog

In July 2023, the DLUHC published a cross sector statement on the proposed measures. A high-level summary of the key proposed measures is:

- 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.

AQR's proposed response

Our proposed response is dependent on the government's measures being implemented.

We propose 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.

We plan to resume a programme of routine audit quality inspections once the system has been "reset".

This applies to local government audits only. We will continue to inspect a sample of NHS major local audits.

AQR propose performing no routine local government audit quality inspections for financial years up to and including the year ended 31 March 2023.

This would apply to local government audits only. AQR will continue to inspect a sample of NHS major local audits.

[4] As incoming shadow system leader, the FRC is supporting DLUHC develop their package of measures. Until legislation can establish a system leader, the FRC is expected to become shadow system leader. The FRC is incoming shadow system leader pending a remit letter from DLUHC establishing it as shadow system leader.

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 proposed measures, to "reset" the system and accept reduced assurances over prior periods.

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

The measures being developed to clearly embed timely delivery of future audits

AQR observation

We encourage auditors to plan their work to complete audits by set deadlines. We remind auditors that timeliness and audit quality are linked. This will be especially important once the system has been "reset".

However, we are clear that entity management has a shared responsibility in this regard. A timely audit relies on an entity having effective internal controls and accurate and timely financial reporting.

The number of incomplete audits is published annually. We would expect more granular data to be publicly available to explain the reasons for any future audits that are delayed or incomplete after the system "reset".

The FRC believes it is necessary for the sector to have a consistent and shared understanding of the reasons for any delays before appropriate action can be taken to address underlying risks and issues.

It is critical that a repeat of the backlog is avoided in future. A high-level summary of the key areas of work focused on longer term change are:

- The CIPFA/LASAAC[5] Local Authority Accounting Code Board are conducting a medium and longer-term review of financial reporting requirements.
- The National Audit Office (NAO) are reviewing the auditing requirements in the Code of Audit Practice.

AQR is working closely with the NAO and inputting into its review of auditing requirements. So are all firms that perform major local audits.

[5] The board is a partnership between the Chartered Institute of Public Finance Accountancy (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC).

The Comptroller and Audit General (C&AG) of the NAO has a responsibility to prepare the Code of Audit Practice ("the Code") and a power to issue guidance to auditors. The C&AG's Code of Audit Practice sets out the requirements that local auditors must follow. Auditors must also have regard to any associated statutory guidance issued by the C&AG.

AQR's role is to assess the quality of audit work against relevant and applicable auditing standards, and any additional requirements as set out in the Code. As such, an AQR inspection will not challenge a firm for following the requirements of the C&AG's Code of Audit Practice or associated statutory guidance.

AQR's response

We cannot finalise any decision on the scope of individual inspections of future local government audits.

Why?

We await the outcome of the reviews into financial reporting and auditing requirements by CIPFA/LASACC and the NAO and will consider the scope and focus of our inspections accordingly.

The scope of individual inspections is risk-based and takes into account a range of factors.

AQR's 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 also considers a range of other factors, including, but not limited to:

- AQR's 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 disclosure of senior officer remuneration; the appropriateness of capital expenditure; investment property valuation; and adjustments between accounting basis and funding basis.

The scope of future inspections is dependent on the reviews and potential changes to the CIPFA /LASAAC Financial Reporting Code and the NAO's Code of Audit Practice.

We await the outcome of both reviews and will adjust the focus of our inspections accordingly.

What are AQR's Areas of Focus?

Each December the FRC publishes its corporate priority sectors and Areas of Focus for the year ahead. In future, we will publish our local audit Areas of Focus alongside these. These are areas our audit quality inspections pay particular attention to. Currently our local audit Areas of Focus are:

- Fraud risks.
- Expenditure on services (local government) or operating expenditure (NHS)
- Exposure to commercial risk (financial statement audits and VfM arrangements).
- The application of the revised Auditing Standard on risk identification and assessment (ISA (UK) 315).

These Areas of Focus were applied to local government audits available for us to inspect in the 2022/23 cycle, which had year ends in March or May 2021.

Where a risk existed, financial sustainability was always scoped into our inspections of the auditors' work on VfM arrangements. Given recent high-profile failures and the risk of budgetary pressures leading to more section 114 notices being issued, financial sustainability is likely to become an Area of Focus for our work on VfM arrangements. We reiterate our expectation that auditors keep their VfM risk assessments under review, ensuring they capture risks as they emerge and report any changes to their planned work to the audit committee in a timely manner. Where auditors identify significant weaknesses in arrangements as part of their work, they must raise them promptly with those charged with governance at the audited entity and, if appropriate, consider using their additional reporting powers.

AQR has specific Areas of Focus for local audits. These are areas our audit quality inspections pay particular attention to. We will publish them annually.

Why do AQR focus on areas such as the valuation of operational property?

This is not an AQR Area of Focus.

We meet local government audit committee chairs as part of each inspection. They often mention a disparity between the interest of users in this financial information and the work required by management and auditors to prepare and audit it.

The requirement for local authorities to revalue operational property is driven by a financial reporting framework which must meet HM Treasury's

The complexity in accounting for and auditing PP&E could be significantly reduced if changes were made to financial reporting requirements.

guidance, and which needs to be consolidated into the Whole of Government Accounts.

We understand the argument that there is limited value to some users in auditing the depreciated replacement cost of assets such as schools, especially when statutory provisions require revaluation movements to be removed from the general fund. This means revaluation movements have no impact on council tax, financial planning, or any measure of financial sustainability.

However, in local government, Property, Plant and Equipment (PP&E) is often the largest asset on the balance sheet. The prescribed valuation basis for land and buildings is complex and has a high degree of estimation uncertainty, particularly depreciated replacement cost for specialised assets.

Local authorities are required to revalue these assets and report these revaluations in their financial statements. Auditors are required to audit the financial statements, inclusive of these revaluations, in accordance with their professional standards, the ISAs (UK).

As part of their work, local auditors regularly identify PP&E valuation as a significant audit risk. This is not an unreasonable conclusion for auditors to reach, given both the likelihood and potential magnitude of a material misstatement in this significant estimate.

Auditors are required to obtain more persuasive audit evidence the higher their assessment of risk. AQR have historically scoped the valuation of PP&E into inspections because of auditors' own risk assessments, coupled with the size of balances in comparison to audit materiality and the estimation uncertainty in these revaluations. There have also been examples, in the audits we historically inspected, where management made a prior period adjustment to correct material errors in the valuation of these assets. That further heightens the risk from an audit perspective.

It is important to understand that it is AQR's role to assess the quality of an auditor's work against the requirements of relevant and applicable auditing standards. As auditors are required to audit these revaluations which are included in the financial statements, we do not believe it would be appropriate to exclude PP&E valuation from the scope of our inspections. Fundamentally, we would find it unacceptable for auditors to report the valuation of PP&E to audit committees as one of the highest assessed risks of material misstatement and not perform commensurate audit procedures.

Regardless, we do not always inspect PP&E valuation. On an individual inspection, the likelihood of AQR inspecting PP&E valuation increases with the auditor's own assessment of risk.

We would highlight that from the sample of inspections performed in either of our last two inspection cycles, we identified no key findings related to PP&E.

The complexity in accounting for and auditing PP&E could be significantly reduced if local government bodies were allowed to account for operational property on a different basis, for example at cost (or deemed cost). However, financial reporting requirements do not allow local government that option.

This has been the subject of a Thematic Review by HM Treasury (HMT) who are considering a proposal to change the financial reporting requirements for these assets. AQR welcomes the HMT consultation and wider debate on simplification of the financial reporting framework.

CIPFA/LASAAC's subsequent review of financial reporting requirements is critical. This must focus on simplification and the needs of the users of the financial statements, ensuring proportionality and understandability are given proper consideration.

The FRC's Audit and Assurance Sandbox – materiality initiative

The FRC's Sandbox[6] provides a mechanism for developing solutions to practical issues in applying the auditing standards. Project Directors from the FRC's Audit & Assurance Policy team manage the Sandbox and engage with a wide range of stakeholders, including auditors, on individual initiatives.

An initiative considering materiality in local government audit is underway. The initiative is considering the application of materiality to large balance sheet areas, such as the valuation of PP&E. Materiality is set after considering the needs of users and has a pervasive impact on the audit process, including the auditor's risk assessment and the extent of audit procedures performed against those risks.

This initiative is ongoing. The FRC considers, on a case-by-case basis, how to communicate relevant findings from each initiative. This may or may not result in formal FRC guidance or amendments to standards.

The FRC's Sandbox is considering materiality in local government audits. It is considering the application of materiality to large balance sheet areas, such as the valuation of PP&E.

[6] Further information about the FRC's Sandbox is available our website

2. Findings from our inspection activity

Overview

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.

The number of outstanding audits is approaching a thousand. 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 firms have informed us of many reasons for these failings in timeliness, including their own resourcing constraints among local audit specialists; the increasing complexity of financial statements; delays caused by management; and accounting issues, such as those related to infrastructure assets. Increasingly local authorities are involved in some complex areas of activity, including in financial services, which can introduce complex reporting requirements.

In our previous two inspection cycles we have undertaken 20 inspections each year, six health and 14 local government, covering both the financial audit and work on VfM arrangements. The balance of inspections between health and local government being a proportionate sample of the major local audits in our scope.

We would ideally inspect audits from the year ended 31 March 2022 in this, the 2022/23 inspection cycle. We had to adopt a different approach due to the failings in timeliness. For the 2022/23 cycle, we selected local government audits for inspection from those finished in the 2022 calendar year (regardless of the financial year the audit related to). In that period, only just over 20% of local government bodies within our scope had an audit completed. There have been no delays in health audits significant enough to impact our monitoring activities.

In response to the failings in timeliness we temporarily reduced the number of local government inspections performed.

In response to these failings in timeliness, we had to temporarily reduce the number of local government inspections performed. We reduced the number of local government inspections to:

- Proportionately respond to the shortage of completed audits available to inspect.
- Avoid selecting a large number of audits for inspection simply because they were complete rather than considered higher risk.

- Allow staff and partners at the audit firms to focus on completing outstanding audits.

We therefore performed 10 inspections in this cycle, comprised of six health and four local government audits. Reducing the number of inspections has implications for the content and format of this report. We are not able to report key findings against individual firms this year. AQR must inspect at least two audits at each firm to allow us to publicly report findings by firm without identifying the results of individual inspections.

Scope of individual inspections

Users of this report must understand that, for the first time, we inspected more audits from the health sector than local government. For that reason, our findings are more indicative of audit quality in the health sector. We were not able to select local government audits for inspection based on risk. The audits we consider highest risk were not complete. By high risk we mean, for example, bodies which:

- We were unable to previously inspect (due to the backlog of incomplete audits).
- Have identified governance or internal control weaknesses.
- Are experiencing significant financial difficulty.
- With material exposure to commercial risk.

Higher-risk audits are inherently more challenging, requiring audit teams to assess and conclude on complex and judgemental matters. Professional scepticism and sector expertise are especially important in such audits. Our inability to inspect higher-risk audits means that our findings are not comparable to prior cycles. Despite this limitation, the scope of each individual inspection was focused on any risks present at that audited entity. Our scoping was informed by a range of factors, including:

- Previous inspection findings.
- Our Areas of Focus. Further details were provided in Section 1.
- The risks and findings identified by the auditor.
- Discussions with the audit committee chair on all inspections.
- Matters we consider significant in the sector. Examples include the disclosure of senior officer remuneration; the appropriateness of capital additions; investment property valuation; and, in local government, adjustments between accounting basis and funding basis.

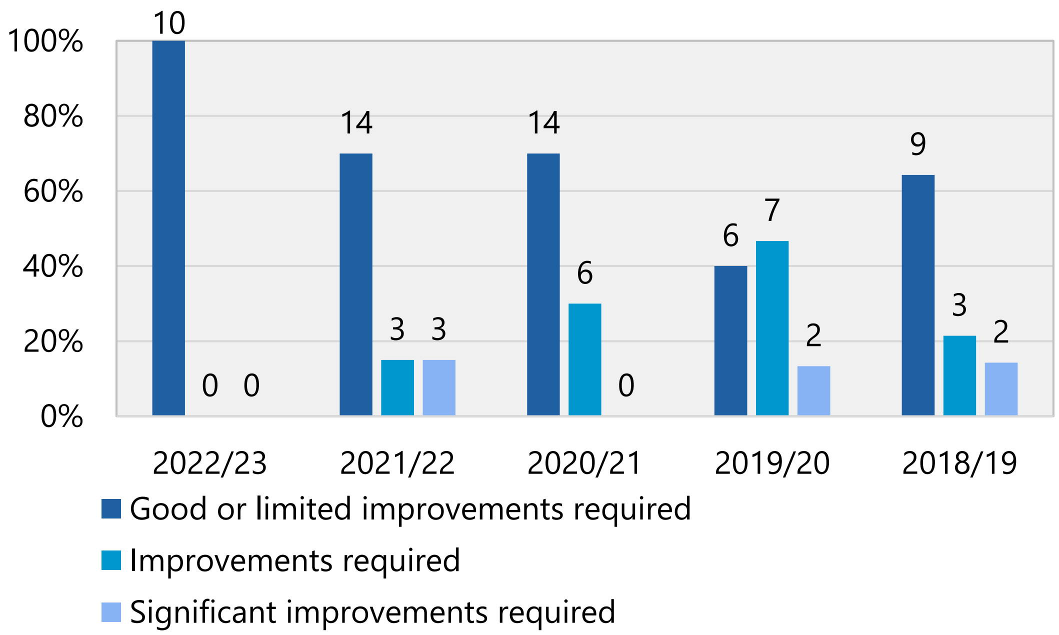
The local government audits we consider highest risk were not available for us to inspect.

Inspection results: arising from our review of individual financial statement audits

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 ten audits inspected were assessed as requiring no more than limited improvements.

Our assessment of the quality of financial statement audits inspected: for the firms inspected



The audits inspected in the 2022/23 cycle included above had year ends in March (or in one case May) 2021 (local government) and March 2022 (health).

The severe restrictions placed on our ability to perform audit quality inspections means that our findings are more indicative of audit quality in the health sector.

When AQR are able to review higher risk local government audits, more inspections may be assessed as requiring improvements or significant improvements.

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

All financial statement audits we inspected were assessed as good or limited improvements required.

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.

We set out below the areas where we believe improvements in audit quality are required. These findings are those assessed as requiring limited improvements but are included in this report due to their prevalence across the audits we inspected.

Audit procedures over expenditure

Auditors should undertake appropriate procedures to test the accuracy and occurrence of expenditure. It is taxpayers' money being spent. The validity of recorded expenditure is also important to users of the accounts as financial planning, including savings plans are based on it. Previously, we reported that the quality of work performed by the firms had improved but continuing deficiencies still needed to be addressed.

Findings

We inspected the testing of expenditure on most of the audits inspected. We identified four audits that required limited improvements across three firms. We do not consider these key findings. Findings included:

- On two audits where significant risks were identified over the completeness of expenditure, not sufficiently justifying the period used for testing unrecorded liabilities and expenditure cut-off.
- Not appropriately testing the completeness and accuracy of underlying information used by management to calculate high value accruals.
- On an audit where a significant risk was identified over the accuracy of accruals, insufficient reasoning for not performing further audit procedures on a population of accruals with value over performance materiality.

Coverage of the auditors' work on the valuation of operational property and pensions

As part of the measures being developed to address the backlog in local government inspections, we undertook to clearly set out how our inspections reviewed the auditor's work on the valuation of Property, Plant and Equipment (PP&E) and net defined benefit pensions assets or liabilities.

- We inspected the testing performed over the valuation of defined benefit pensions liabilities on two inspections where the auditor had identified a significant risk. Both were local government audits. Our inspections identified no findings.
- We inspected the testing performed over the valuation of PP&E on six inspections where the auditor had identified a significant risk. Two were local

government audits. We identified three audits that required limited improvements. We do not consider these key findings. We have provided an example finding below.

Example finding – the valuation of Property, Plant and Equipment

On the audit of one NHS Trust, our finding was that the audit team did not sufficiently tailor its audit procedures to address the impact of backlog maintenance.

Backlog maintenance was estimated to be greater than the value of land and buildings at this NHS Trust. The basis of valuation requires adjustments to be made for physical deterioration and obsolescence. The audit team tested a sample of 45 individual assets. The evidence of its work in this area was boilerplate with identically worded evidence and conclusions reached for each sample.

We concluded that the audit team had not gained an adequate understanding of the nature and extent of backlog maintenance on individual assets. As a result, the audit team was unable to:

- Focus its sample testing on a smaller number of higher risk assets.
- Demonstrate that it understood the condition of individual assets sufficiently to evaluate, and if necessary challenge, the reasonableness of judgments made by management's valuer when making allowances for physical deterioration and obsolescence.

Good practice

We identified range of good practice related to risk assessment, execution, and completion and reporting. Examples included:

- **Detailed risk assessment resulting in proportionate audit procedures over property valuation:** the risk assessment appropriately focused the auditor's testing on a small number of higher risk properties. On corporate audits, we also observe risks being pinpointed to specific areas such as certain assumptions. Where appropriate to do so, this approach could enable local auditors to focus their audit effort on higher risk areas and reduce the extent of procedures performed elsewhere.
- **Professional scepticism and challenge:** the audit team challenged management on the appropriateness of a Clinical Commissioning Group (CCG) recording expenditure incurred in a neighbouring CCG's area. As a result, the expenditure was derecognised, and a transfer of funding allocation made between the CCGs.

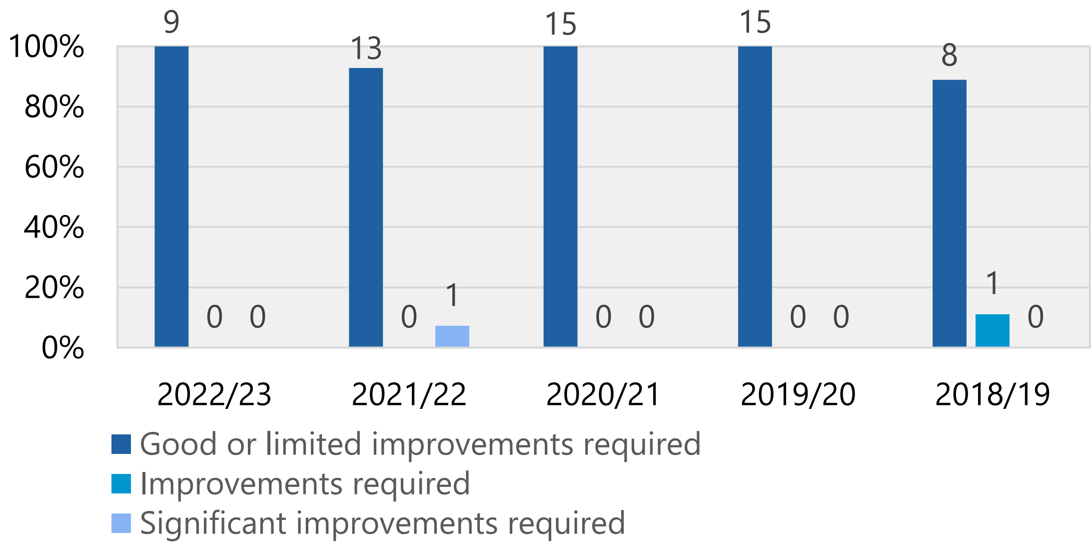
- **Key Audit Partner oversight:** there was clear oversight, involvement, and review by the Key Audit Partner throughout the audit process. Effective and timely oversight by senior members of the audit team supports high-quality audit and reduces rework.

Inspection results: arising from our review of auditors' work on Value for Money arrangements

The auditors' work considers whether a body has put in place proper arrangements to secure value for money in its use of resources. Audit firms must comply with the requirements of the National Audit Office's Code of Audit Practice and have regard to associated statutory guidance. Our quality monitoring is performed against these requirements.

We inspected the auditors' work on VfM arrangements at nine bodies and assessed all as requiring no more than limited improvements. This comprised six health and three local government bodies. This is less than the number of financial statement audits inspected because the auditor's work on VfM arrangements was not complete on one audit that we inspected.

Our assessment of the quality of the auditors' work on VfM arrangements: for the firms inspected



All the auditors' work of VfM arrangements that we inspected was assessed as good or limited improvements required. However, we are disappointed that we were unable to inspect the auditors' work at higher profile and higher risk local government bodies because the work is incomplete, in some cases for several years. When AQR is able to inspect the work at these bodies, including those with heightened financial sustainability risks or exposure to commercial risk, our assessment of audit quality may reduce.

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

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

We set out below the areas where we believe improvements in audit quality are required. These findings are those assessed as requiring limited improvements but are included in this report due to their prevalence in the work we inspected.

Risk assessment

An auditor's risk assessment should be thorough and kept under review, ensuring risks of significant weaknesses in arrangements are captured as they emerge and reported promptly to those charges with governance.

Findings

We inspected VfM risk assessments on all inspections. We identified three findings assessed as requiring limited improvements across three firms:

- Risk assessment procedures not being performed in a timely manner. The auditor performed them after risks of significant weaknesses in arrangements were reported to those charged with governance.
- Not considering the arrangements in place at the body to manage, monitor and oversee its subsidiaries.
- The audit team not updating their initial risk assessment or reporting to consider how the body had achieved its outturn financial position.

Our assessment of the severity of these findings considered the potential impact of any deficiency. When AQR is able to review the work on VfM arrangements at higher risk local government bodies, more inspections could be assessed as requiring improvements or significant improvements.

Good practice

We identified examples of good practice in some of the inspections we performed, including the following:

- **Comprehensive risk assessment:** on three inspections at the same firm, the VfM risk assessment was supported by comprehensive evidence of the audit team's review, challenge and conclusions reached. None of the findings reported above related to work performed by this firm.
- **The Auditor's Annual Report:** on the same three inspections, the auditor's reporting was comprehensive and well-structured. Communication was clear, including the nature of any significant weaknesses identified and associated recommendations made.

Inspection results: arising from our review of the firms' quality control procedures

We review firm-wide procedures based on those areas set out in International Standard on Quality Control (ISQC) 1, in some areas on an annual basis and others on a three-year rotational basis. Our firm-wide work covered all six firms completing major local audits. The table below sets out the areas that we have covered this year and in the previous two years.

Annual	Current year 2022/23	Prior year 2021/22	Two years ago 2020/21
• Audit quality focus and tone of the firm's senior management • Root cause analysis process • Audit quality initiatives, including plans to improve audit quality • Complaints and allegations processes	• Relevant ethical requirements – Compliance with the FRC's Revised Ethical Standard 2019 • Partner and staff matters, including recruitment, appraisals, remuneration and promotion • Acceptance, continuance and resignation procedures • Audit methodology	• Implementation of the FRC's Revised Ethical Standard 2019 • Engagement quality control review, consultations and audit documentation • Audit methodology • Internal quality monitoring	• Audit methodology (recent changes to auditing and accounting standards) • Training for auditors

The sample testing performed included local auditors, for example in recruitment, appraisals, remuneration and promotion. The key findings and good practice identified are reported in each firm's Audit Quality Inspection and Supervision Report for 2023 on public interest entity audits[7] which the FRC published in July.

We carefully considered if we needed to extend our work on the firms' quality control and review procedures to cover matters specific to local audit. At this time, we did not consider this necessary. A factor we considered when making this decision was whether the public interest was best served through the

[7] Each firm's Audit Quality Inspection and Supervision Report for 2023

benefit of us completing any additional work or allowing staff and partners at the audit firms to focus on completing outstanding local audits.

Going forward firm-wide monitoring will be performed under ISQM (UK) 1, which came into effect on 15 December 2022.

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