



# Agenda

FRC regulation

Length & complexity  
of accounts

Audit deadlines

Audit fees

Recruitment &  
retention

Reviews of the audit  
market

# FRC regulation

	2012	2020
<b>Regulatory body</b>	Audit Commission / PSAA	FRC & ICAEW
<b>Number of external Inspections per annum</b>	5	15
<b>Length of inspection process</b>	3 weeks	3 months
<b>Primary focus</b>	Timeliness of sign off Ensuring fee not too high	Audit opinion correct Ensuring fee not too low
<b>Secondary focus</b>	General Fund balance and Usable Reserves appropriately stated Financial sustainability enables the continued provision of services to expected level Proper governance in place helping to ensure stewardship of funds	Property, Plant and Equipment appropriately valued Pension Fund liabilities appropriately valued Any other areas of critical judgement
<b>Public Reporting</b>	No	Yes
<b>Potential sanction</b>	Recommendation to Head of Audit	Fine of individual and firm

# Length & complexity of accounts

## The changing face of local government financial reporting – Birmingham City Council

	2008/09	2018/19
Auditor	Audit Commission	Grant Thornton
Length of financial statements (excluding opinion)	91 pages	219 pages
Length of audit opinion	3 pages	12 pages
Date opinion signed	Feb 2010 (11 months after year end)	September 2019 (6 months after year end)
Scale fee for audit opinion	£700,000	£241,000
Audit fee – grant claims	£300,000	£100,000

# Audit deadlines

Year	Target date	% opinions signed (all firms)
2016/17	30 Sep	95%
2017/18	31 July	80%
2018/19	31 July	58%

# Audit fees

- Audit fees have reduced by c.66% on average in the last 10 years
- Audit firms have sought to make audits more efficient & reduce auditor pay in real terms to remain sustainable
- However, due to the regulators raising the bar, the costs of delivery have started to significantly increase. Approx. 10%-15% increase in days last year alone.

# Recruitment & retention

- Auditor pay has declined in real terms
- Unsustainable – 60+ hour weeks
- Significant loss of experienced people
- Auditor shortages in UK particularly at in-charge grade
- Resorting to foreign recruitment due to shortages in the UK

# Reviews of the audit market

- CMA
- Kingman
- Brydon
- Redmond



# Our response to The Redmond Review

Local audit is facing an unprecedented set of challenges:

- Accounts have grown far more complex
- Authorities are engaging in more innovative / unusual transactions
- Austerity has reduced the ability of many authorities to prepare high quality accounts and working papers
- Audit fees have fallen to an unsustainably low level
- The sign off date of 31 July is too tight
- Retention of key people is very difficult in this environment
- Authorities are not getting the service they deserve
- Radical reform is needed

# Our response to The Redmond Review

A 'system wide' solution is needed. We believe this should include:

- The establishment of a separate regulator for local audit
- Rebasing of audit fees to a level which reflects the additional work we are now undertaking
- A simplified CIPFA Code / tiered approach
- A revised approach to Value for Money
- Replacement of the conclusion with a narrative report, at a different time of year
- A focus on governance, financial sustainability and the three 'E's
- Move the target publication date for LG accounts back to 30 September

