

What is happening in the external audit market?

Rotherham Metropolitan Borough
Council

24 March 2020



Agenda

FRC regulation

Length & complexity
of accounts

Audit deadlines

Audit fees

Recruitment &
retention

Reviews of the audit
market

FRC regulation

	2012	2020
Regulatory body	Audit Commission	FRC & ICAEW
Number of external Inspections per annum	5	15
Length of inspection process	3 weeks	3 months
Primary focus	<ul style="list-style-type: none"> • Timeliness of sign off • Ensuring fee not too high 	<ul style="list-style-type: none"> • Audit opinion correct • Ensuring fee not too low
Secondary focus	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Property, Plant and Equipment appropriately valued • Pension Fund liabilities appropriately valued • Any other areas of critical judgement
Public Reporting	No	Yes
Potential sanction	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 the norm
- 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

