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| Harrow Council Logo |
| REPORT FOR: | Governance, Audit, Risk Management and Standards Committee (GARMS) |
| Date of Meeting: | 1st December 2020 |
| Subject: | Financial Reporting Council – Audit Quality Inspection Report on Local Audits  |
| Responsible Officer: | Dawn Calvert, Director of Finance and Assurance  |
| Exempt: | No |
| Wards affected: | All |
| Enclosures: | FRC – Major Local Audits – Audit Quality Inspection Report October 2020  |

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| Section 1 – Summary and RecommendationsThis report outlines the recent Financial Reporting Council’s report on the quality of local audits of 2018-19.Recommendations: The Committee is asked to note the contents of this report  |

# Section 2 – Report

Background

1. The Financial Reporting Council’s (FRC) purpose is to serve public interest by setting high standards of corporate governance, reporting and audit, and by holding to account those responsible for delivering them. The Audit Quality Review (AQR) monitors the major audits including those of health and local government bodies.
2. The FRC issued a report in October 2020 on the “Major Local Audits – Audit Quality Inspection”. This is the first time the FRC has reported publicly on major audit quality. The scope is to review both the quality of the audit of the financial statements and the conclusion on arrangements to deliver value for money.
3. The assessments were carried out between December 2019 and September 2020.

**The Major Local Audits – Audit Quality Inspection Report**

1. The FRC inspected 15 audits in respect of the 2018-19 financial statements and value for money conclusions. The sample was taken across seven auditing firms including Mazars this Authority’s external auditors.

1. The audit quality inspection review assesses the audit in one of three ways:-
2. good or limited improvements required, or
3. Improvement required, or
4. Significant improvements required
5. The work on 9 (60%) out of the 15 audits assessed on the financial statements reviewed required improvements and the FRC stated this was unacceptable. Detailed comments on each firm assessed (and their responses) are included in the full report which is attached.
6. The report of the Financial Reporting Council (FRC) has reported that their assessment of the quality of the 2 Financial Statement Audits undertaken by Mazar’s warranted a conclusion of significant improvement required. This Council is naturally concerned to read about performance issues with its external auditor and the potential impact on the work undertaken by Mazars on the Council’s Financial Statements.  The Council has read Mazars response to the FRC’s findings and welcomes their commitment to improving the quality of their Local Authority work.  At this stage no changes are recommended to the Council’s external audit arrangements and the Council will stay in regular contact with Mazars about the improvements to its working practices.
7. The quality of the audit work on the conclusions for the value for money was high and continued to improve with assessments requiring no more than limited improvements. Detailed comments on this area of audit work are included within the attached report.
8. Mazars have made a response to show the actions and improvements they are taking which is included in the detailed FRC report (pages 17 -19) attached.
9. Mazars have stated that their commitment to audit quality is at the core of its values and is dedicated to the continuous improvement of its audit work and the service its provides to its clients.
10. Mazars also confirmed in their reply that they will robustly respond to the findings and already has plans in place to improve the quality of its local audit work.
11. Mazars representatives will be available at the meeting to respond to the reports findings and their firm’s reply to FRC.

## Legal Implications

#### There are no direct legal implications for this report

## Financial Implications

1. There are no direct financial implications arising from this report.

## Risk Management Implications

1. There are no direct risk implications, but the indirect concerns / risks have been set out in the body of the report

## Equalities implications / Public Sector Equality Duty

1. There are no equalities implications

## Council Priorities

1. The audit of the Statement of Accounts provides assurance that the Council has managed and delivered its finances in accordance with its approved plans and budget.

## Section 3 - Statutory Officer Clearance

**Statutory Officer: Dawn Calvert**

Signed by the Chief Financial Officer

**Date: 24 November 2020**

**Statutory Officer: Caroline Eccles**

Signed on \*behalf of the Monitoring Officer

**Date: 19 November 2020**

**Statutory Officer: Charlie Stewart**

Signed by the Corporate Director

**Date: 20 November 2020**

## Mandatory Checks

### Ward Councillors notified: NO, as it impacts on all Wards

## Section 4 - Contact Details and Background Papers

**Contact:** Paul Gower, Interim Technical Accounting Manager, e-mail paul.gower@harrow.gov.uk

**Background Papers**: None