

# Annual Regulatory Compliance and Quality Report

**Ernst & Young LLP June 2015**

**Audit 2014/15**

**Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.**

**The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to PSAA by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.**

**The company is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.**

**Before 1 April 2015, these responsibilities were discharged by the Audit Commission.**

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# Summary report

## Introduction

- 1 Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of our monitoring provide audited bodies and other stakeholders with assurance that auditors within our regime are delivering high-quality audits.
- 2 There are two strands to our monitoring:
  - audit quality- applying our annual quality review programme (QRP) to the audit work undertaken for the year ending 2013/14; and
  - regulatory compliance- reporting quarterly on audit firms' compliance with our 2014/15 regulatory requirements as set out in the Terms of Appointment<sup>I</sup>.
- 3 The audit quality and regulatory compliance monitoring for 2014/15 incorporated a range of measurements and checks comprising:
  - a review of each firm's latest published annual transparency reports;
  - the results of reviewing a sample of each firm's audit quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) conclusions, Whole of Government Accounts (WGA) and housing benefit (HB COUNT) work. Our review included assessing compliance with the HB COUNT guidance;
  - an assessment as to whether we could rely on the results of each firm's systems for quality control and monitoring<sup>II</sup>;
  - a review of the Financial Reporting Council's (FRC) published report on the results of its inspection of firm audits in the private sector;
  - the results of our inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of our commissioned rolling inspection programme of financial statements and VFM work;
  - the results of each firm's compliance with 17 key indicators relating to Terms of Appointment requirements<sup>III</sup>;
  - a review of each firms' systems to ensure they comply with our regulatory requirements<sup>IV</sup>; and
  - a review of each firm's client satisfaction surveys for 2013/14 work.
- 4 This report summarises the results of our monitoring work for Ernst & Young LLP (EY).

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<sup>I</sup> Previously these requirements were set out in the Standing Guidance for Auditors issued by the Audit Commission.

<sup>II</sup> These assessments were undertaken by the Audit Commission prior to 1 April 2015.

<sup>III</sup> Results of compliance against the 17 indicators were published by the Audit Commission prior to 1 April 2015.

<sup>IV</sup> These assessments were undertaken by the Audit Commission prior to 1 April 2015.

## Overall performance

5 The firm is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2. For 2014/15, EY's combined audit quality and regulatory compliance rating was green.

Figure 1: 2015 Comparative performance for audit quality and regulatory compliance

BDO	DT	EY	GT	KPMG	Mazars	PwC
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6 The firm has maintained its performance against the regulatory compliance indicators since last year, with all but one of the 2014/15 indicators scored as green. However, one complaint was accepted against the firm in relation to the clarity and timeliness of communications with an objector and it needs to ensure this is improved on for next year.

7 The firm's overall weighted audit quality score has increased from last year and the satisfaction survey results show that audited bodies are satisfied with the performance of EY as their auditor.

## Detailed report

### Quality review programme

#### *FRC Inspection*

**8** Every year each firm provides a self-assessment in the form of a statutory transparency report. Our review of the EY transparency report did not highlight any significant issues of note.

**9** Annually, the FRC publishes reports on the audit firms subject to full scope FRC inspections (including firms in our regime), as well as an overall annual report. We place reliance on the work of the FRC, which reviews the firms' systems and processes for ensuring audit quality and reviews a sample of their audits of public interest entities. In its latest public report (May 2015) on the firm, the FRC concluded that audit procedures were performed to a good or acceptable standard for 14 of the audit engagements reviewed, with two audits requiring significant improvement.

**10** In addition, the FRC produces an annual overview report on the profession based on its audit quality inspection activities in the year. The FRC's overall conclusion in this report was that '*...the 2014/15 inspection results are consistent with our overall judgment that audit quality is improving.*' (FRC Annual Report 2014/15, 29 May 2015).

**11** The FRC have identified key issues in its annual report which, profession wide, should be addressed in order to improve audit quality. These were:

- a need for auditors to improve their scepticism in challenging the appropriateness of assumptions in key areas of audit judgment such as impairment testing and property valuation;
- a need for an improvement in the sufficiency and appropriateness of audit procedures being performed. This is common to many audit areas including revenue recognition; and
- a need to adequately identify the threats and related safeguards to auditor independence and to appropriately communicate these to audit committees.

**12** We have raised these issues with EY and with all other firms in our regime; and we will continue to monitor progress in these areas.

**13** We also commissioned inspections of all firms by the FRC for this year's QRP. The AQR inspected two 2013/14 audit files and one VFM conclusion file from EY's PSAA work and did an updated commentary on the applicability of firm-wide procedures to our audits. Having considered the review points raised by the AQR, we assessed the audits inspected as acceptable with limited improvements required and acceptable overall with improvements required for the two financial statements audits and as acceptable overall with improvements required for the VFM conclusion work.

**14** The improvement points raised by the AQR, from across the firms, following this year's programme of work for PSAA were:

- a continuing need to review, challenge and consider the reasonableness of management's documents and assumptions with respect to evidence obtained for the VFM conclusion, particularly in relation to increasing funding gaps at local government organisations; and in relation to the consideration of savings plans, the levels of reserves and budgetary controls;
- a need to clearly justify and document materiality considerations and not default automatically to the top of the materiality range;
- a need to consider property valuations as significant risk areas, particularly to ensure that when using external valuers in this respect they review and challenge management valuations. In addition, audit teams needs to verify the completeness and accuracy of source data used by

experts and to evidence the consideration of ensuring that assets are revalued on the appropriate cycle in accordance with accounting policies; and

- a need to evidence journals selected for testing by audit teams, while improving procedures to ensure the completeness of the population of journals considered for testing and following up on any identified control weaknesses.

**15** We have combined our scores for the AQR inspections for PSAA with the firm's QMR scores in the relevant sections in the rest of this report. These improvement points are included in Appendix 4.

### *QMR programme*

**16** PSAA sets quality standards for its appointed auditors and monitors their performance against them. The principal means of monitoring and evaluating the quality of auditors' work is the annual QRP. For 2014/15 we relied on each firm's own quality monitoring arrangements.

**17** All firms agreed to follow PSAA's methodology and reporting format for their QMRs for WGA returns, VFM conclusions and HB COUNT audit work and use their own methodology for assessing work on the financial statements (converting the financial statements results to our scoring system). We concluded that EY's QMRs were sufficiently detailed and rigorous for us to place reliance on all of the reviews provided by the firm.

**18** Each firm scored their QMRs using a common four-point scale, with 3 being the highest and 0 being the lowest. A score of 1 is our benchmark for acceptable performance. The full assessment scale is detailed in Table 1 and we calculated the score for overall audit quality on a weighted assessment using the weightings detailed in appendix 1.

**Table 1- PSAA assessment scale**

<b>Score</b>	<b>Descriptor</b>
3	Good, no improvement required
2	Acceptable with limited improvements required
1	Acceptable overall with improvements required
0	Improvements required which are individually or collectively significant

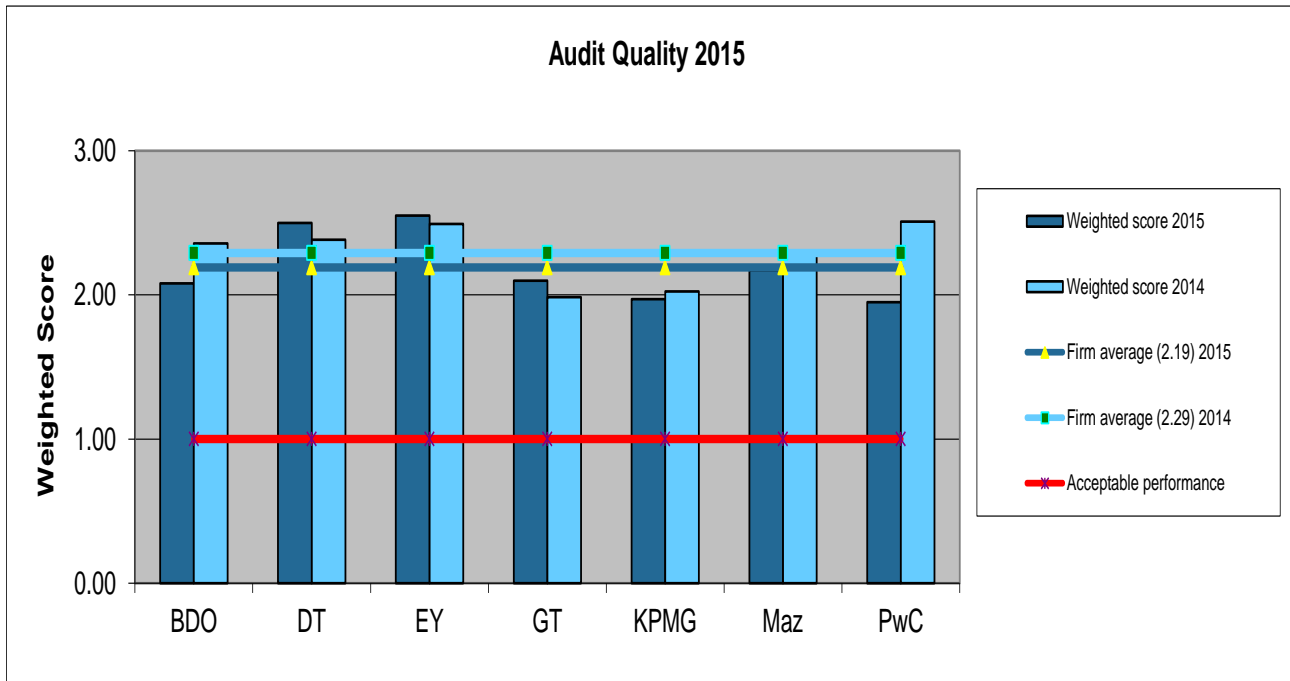
**19** EY's score for overall audit quality was 2.55, compared to an all firm average of 2.19. This was an improvement on last year's score of 2.49, although this year we used a slightly amended scoring base<sup>1</sup>.

**20** Figure 2 shows the assessment of EY's overall audit quality performance in comparison to other firms.

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<sup>1</sup> The prior year assessment included consideration of Health Quality Accounts and Certification work which are not included in the current year assessment.

Figure 2: 2015 Comparative performance for audit quality



21 Our QRP methodology is designed to highlight any specific weaknesses at individual file level, specifically where our benchmark score of 1 is not met, which may have ordinarily been masked behind a high average score across the various elements (Financial statements, VFM, WGA and HB COUNT) of the QRP.

22 We have calculated a red, amber, green (RAG) indicator for each element of the QRP, using the principles detailed in Appendix 2, as well as for overall audit quality. Where a firm scores an average of less than 2, or has any scores of 0, a rating higher than amber in that element is not possible.

23 For 2014/15, EY’s overall rating for audit quality was green. We consider each of the individual elements making up this rating below.

Figure 3: 2015 Comparative performance for audit quality





## Financial statements audit work

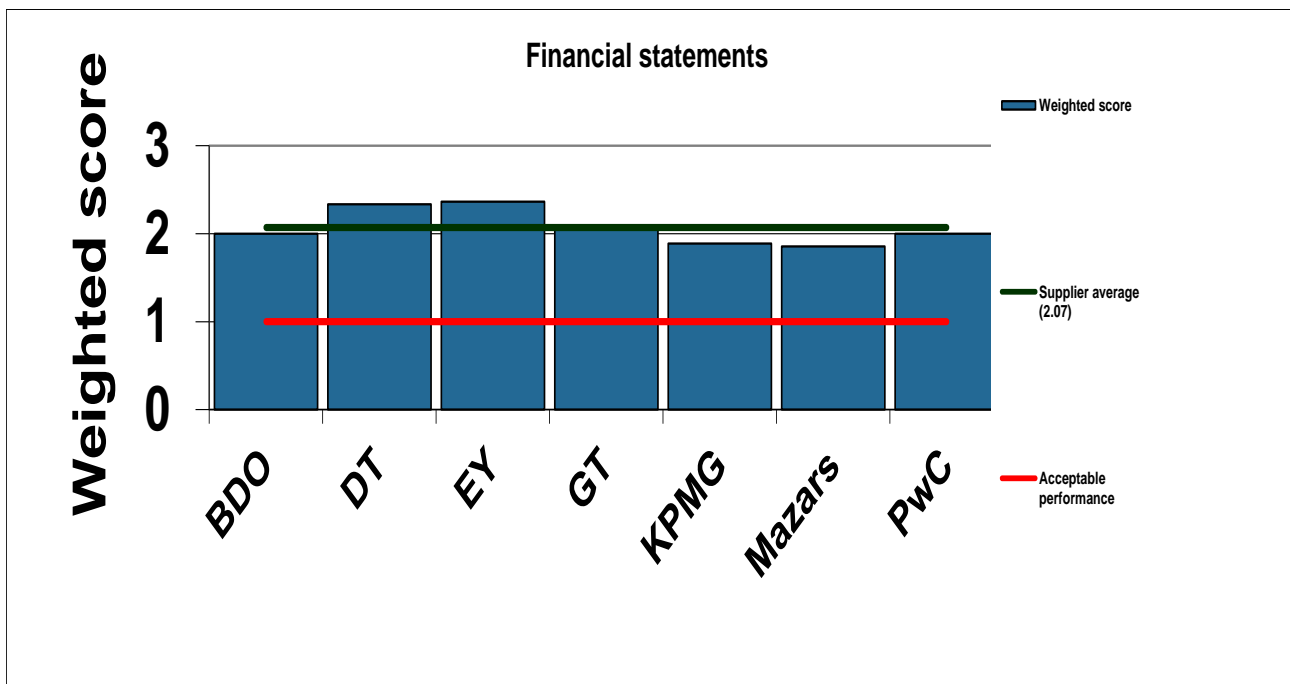
24 The firm provided the results of nine QMRs for financial statement audit files. We reviewed these and agreed with all but one of the firm assessments. In one case, we scored an assessment lower by one grade, from a 2 to a 1. This was because of the nature of the improvement needs identified, specifically around the testing of IT general controls, that were identified by the reviewer. In addition, the AQR review for PSAA provided a score for two additional financial statements assessment.

25 The improvement areas from these individual QMRs and the AQR review included:

- ensuring there is clearer documentation on file to support audit judgements and audit work around the testing of controls, especially where failures in controls are found;
- ensuring clearer documentation on file over the consideration of non-standard management representations; and
- ensuring sufficient audit procedures are undertaken to challenge unadjusted audit differences and the sufficiency of audit disclosures, as well as over the classification of assets in the accounts.

26 Figure 4 shows the comparative performance for financial statement audit work based on the results of the QMRs and AQR review. EY's average score was 2.36 compared to an all firm average of 2.07.

Figure 4: 2015 Comparative performance on financial statements work



27 For 2014/15, EY's rating for financial statements work was green.

Figure 5: 2015 Comparative performance for financial statements audit work

BDO	DT	EY	GT	KPMG	Mazars	PwC
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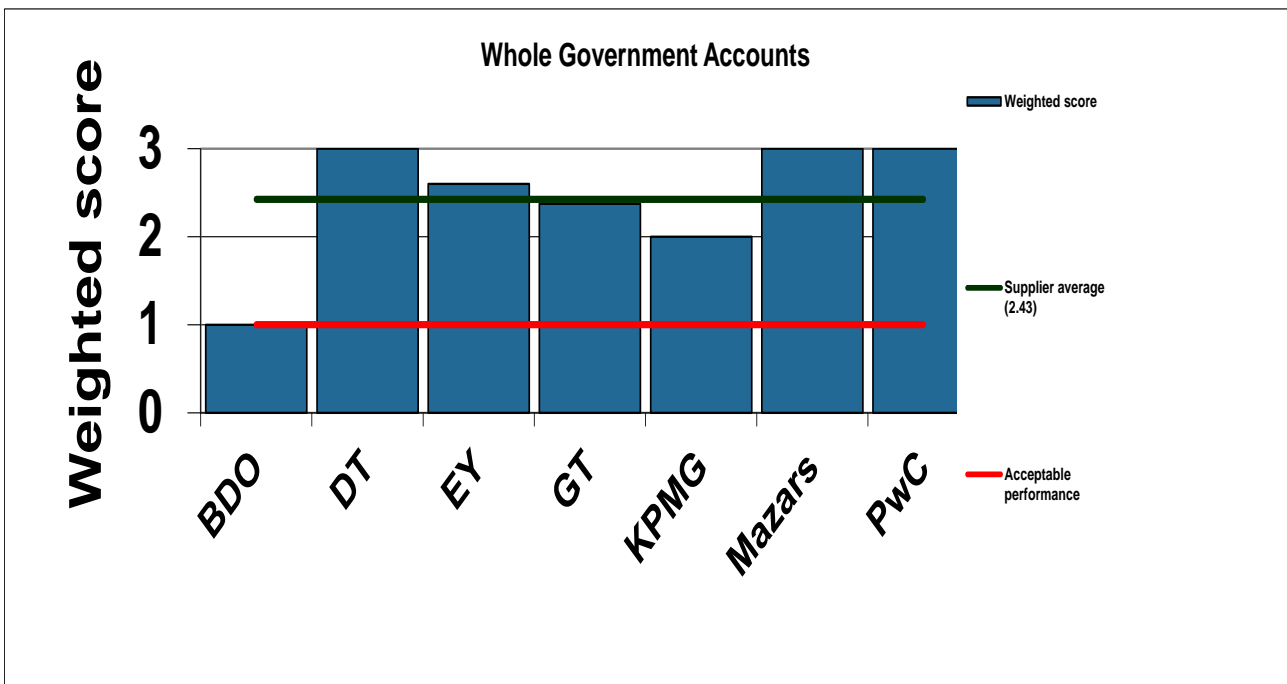
### Whole of government accounts returns

28 The firm provided the results of five QMRs for WGA returns. We reviewed these and agreed with all but one of the assessments. In one case, we scored an assessment lower by one grade, from a 3 to a 2 as improvement needs were identified by the reviewer.

29 The improvement areas from these individual QMRs included ensuring that all unadjusted errors as included in the ISA 260 are properly included in the WGA unadjusted errors schedule.

30 Figure 6 shows the comparative performance for WGA return audit work based on the results of the QMRs. EY's average score was 2.60 compared to an all firm average of 2.43.

Figure 6: 2015 Comparative performance on WGA work



31 For 2014/15, EY's rating for WGA work was green.

Figure 7: 2015 Comparative performance for WGA work



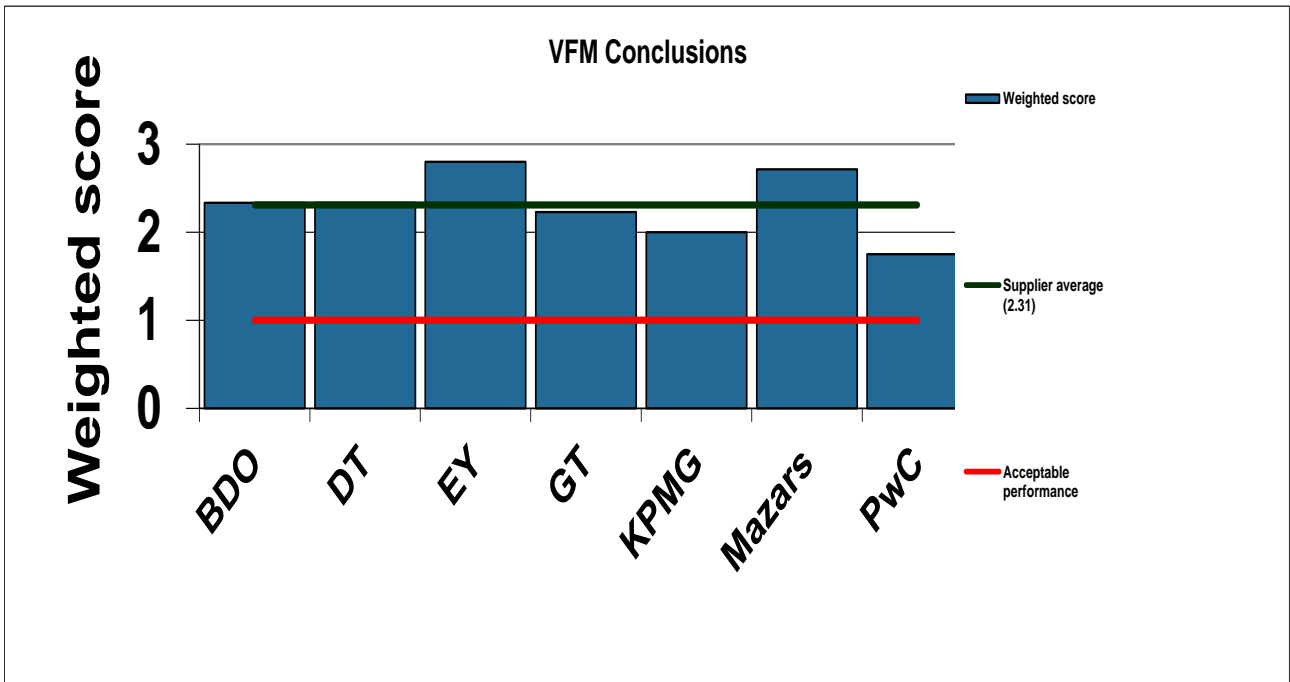
**VFM conclusion audit work**

32 The firm provided the results of nine QMRs for VFM conclusion audit files. We reviewed the results and agreed with all of the assessments.

33 In addition, the AQR review for PSAA provided a score for one additional VFM conclusion assessment.

34 Figure 8 shows the comparative performance for VFM audit work based on the results of the QMRs and AQR review. EY's score was 2.80 compared to an all firm average of 2.31.

Figure 8: 2015 Comparative performance for VFM conclusion audit work



35 For 2014/15, EY's rating for VFM conclusion work was green.

Figure 9: 2015 Comparative performance for VFM conclusion audit work



**Housing benefit work**

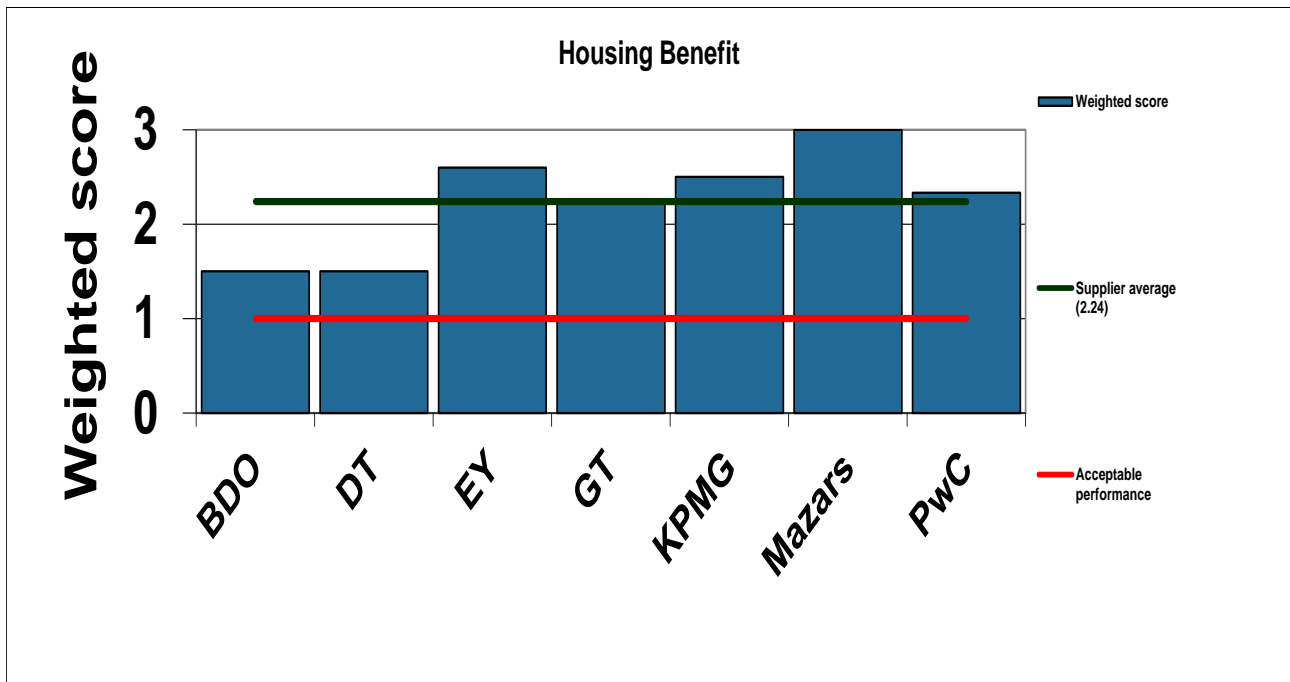
36 Each year auditors certify local authority claims for housing benefit subsidy to the Department for Work and Pensions (DWP). They are required to undertake this work using specific guidance and tools (HB COUNT) which are agreed annually with the DWP. HB COUNT sets out the approach and work needed to certify the subsidy claim form. It includes a requirement to test a sample of cases to check that benefits have been awarded in accordance with benefit regulations and that subsidy has been properly claimed.

37 The firm provided the results of five QMRs for HB COUNT audit work. We reviewed the results of these and we agreed with all of the firm’s assessments.

38 The improvement areas from these individual QMRs included ensuring compliance with the certification instructions on housing benefit work, particularly around the need to consider whether the information recorded in the testing workbooks fully supports the conclusions reached.

39 Figure 10 shows the comparative performance of each firm based on the QMRs. EY’s average score was 2.60 compared to an all firm average of 2.24.

Figure 10: 2015 Comparative performance for HB COUNT audit work



40 For 2014/15, EY’s rating for HB COUNT audit work was green.

Figure 11: 2015 Comparative performance for HB COUNT audit work

BDO	DT	EY	GT	KPMG	Mazars	PwC
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## Regulatory compliance

### Systems for compliance with our regulatory requirements

41 In 2013/14 the Audit Commission (the Commission) reviewed the systems and procedures at EY for ensuring compliance with our regulatory requirements. The Commission's conclusion was that it could place reliance on the firm's systems and procedures for monitoring compliance with its regulatory requirements.

42 For the 2014/15 review, EY confirmed to the Commission that the systems and procedures for regulatory compliance and information assurance arrangements were the same as those in the previous year. Nothing came to the Commission's attention in year to suggest this is not correct, and it concluded that it could continue to rely on EY's systems. We have placed reliance on the work undertaken by the Commission for this assessment.

### Quarterly monitoring of our regulatory requirements

43 The Commission reported the details in the quarterly monitoring reports issued to the firm during the year, including fee variation request and requests for non-audit services from the firm. Figure 12 details the firm's overall regulatory compliance RAG rating compared to other firms as report by the Commission.

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Figure 12: 2015 Comparative performance for regulatory compliance

BDO	DT	EY	GT	KPMG	Mazars	PwC
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44 The firm performed well across all of the regulatory compliance requirements, with all but one of the 17 indicators being rated as green. We have included a summary at Appendix 3 of the results of the 2014/15 regulatory compliance monitoring RAG ratings, comparing the firm's performance against the overall performance for all firms. However, one complaint was accepted against the firm in relation to the clarity and timeliness of communications with an objector and it needs to ensure this is improved on for next year.

## Client satisfaction surveys

45 All firms agreed to undertake client satisfaction surveys for 2013/14 audits, and to report the results to PSAA. We specified questions to be included in the survey and asked firms to provide us with an analysis of the results.

46 The firm received results from a sample of audited bodies (47% of its portfolio of audits) on completion of their 2013/14 audit. Table 1 details the questions and the average score.

**Table 2- Satisfaction survey results**

Question	Average score (max. 10)*
How satisfied are you overall with your audit?	8.2
How satisfied are you with the amount of contact with your Engagement Lead?	8.5
How satisfied are you with the amount of contact with your Audit Manager?	8.6
How satisfied are you with the technical competence and skills of your audit team?	8.2
How satisfied are you with your auditor's performance at committee meetings?	8.8
How satisfied are you with your auditor's understanding of the key issues and risks specific to your organisation?	8.5
How satisfied are you with the usefulness of your auditor's reports?	8.7
How satisfied are you with the timeliness of your auditor's reports?	7.9

\*the EY scoring system has a maximum rating of 5. The survey results have been ratioed against a maximum score of 10 to make the results comparable with other firms.

47 These results show that audited bodies are, on the whole, satisfied with the level of service received from EY and for 2014/15, and EY's rating for client satisfaction was green.

**Figure 13: 2015 Comparative performance for client satisfaction**

BDO	DT	EY	GT	KPMG	Mazars	PwC
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48 The firm has undertaken an analysis of any improvements points raised in the survey and has committed to action any individual improvement points identified.

## Recommendations

### Recommendations arising from the 2014/15 quality review programme

**49** The key areas for improvement identified this year from file reviews are noted below, as taken from the body of this report:

#### *Financial statements*

- ensuring there is clearer documentation on file to support audit judgements and audit work around the testing of controls especially where failures in controls are found;
- ensuring clearer documentation on file over the consideration of non-standard management representations; and
- ensuring sufficient audit procedures are undertaken to challenge unadjusted audit differences and the sufficiency of audit disclosures, as well as over the classification of assets in the accounts.

#### *WGA*

- ensuring that all unadjusted errors as included in the ISA 260 are properly included in the WGA unadjusted errors schedule.

#### *HB*

- ensuring compliance with the certification instructions on housing benefit work, particularly around the need to consider whether the information recorded in the testing workbooks fully supports the conclusions reached.

**50** Appendix 4 provides details of the actions the firm has, or intends to take to address these improvement areas. We understand the findings from the QMR will be considered by the firm's top management team and then communicated to staff.



## Appendix 1 – Weightings to calculate overall quality score

Table 3- weightings

<b>Audit element</b>	<b>Local government</b>	<b>NHS</b>
	<b>%</b>	<b>%</b>
Financial statements	60	70
WGA	5	-
VFM Conclusions	25	30
HB	10	-
Total	100	100

## Appendix 2 - Audit quality and regulatory compliance RAG rating

**Table 4- QRP elements of financial statements, VFM conclusions, WGA assessments, health quality accounts, certification instructions and housing benefit work.**

Rating	Firm level: Overall Audit Quality score	Firm level: Individual QRP element
<b>Green</b>	Firm audit quality score $\geq 2$ and no scores of '0' at file review level	Average element score $\geq 2$ and no scores of '0' at file review level
<b>Amber</b>	Firm audit quality score $\geq 1$ with up to two scores of '0' at file review level	Average element score $\geq 1$ with up to one score of '0' at file review level
<b>Red</b>	Firm audit quality score $< 1$ , <b>or</b> Firm audit quality score $\geq 1$ but three or more scores of '0' at file review level	Average element score $< 1$ , <b>or</b> Average element score $\geq 1$ but two or more scores of '0' at file review level

**Table 5- Regulatory compliance RAG rating based on 17 quarterly monitoring indicators**

Rating	Overall firm level score- indicators
<b>Green</b>	12 or more at green and no more than two at red.
<b>Red</b>	Six or more indicators at red.
<b>Amber</b>	Neither green nor red.

**Table 6- Combined audit quality and regulatory compliance RAG**

		QRP RAG		
		Red	Amber	Green
Regulatory compliance RAG	Red	R	R	A
	Amber	R	A	A
	Green	A	A	G

**Table 7- RAG rating the results of satisfaction survey results**

<b>Firm 0-10 assessment (average)</b>	<b>Firm unsatisfactory – satisfactory assessment (average)</b>	<b>PSAA RAG rating</b>
0-3	very dissatisfied / dissatisfied / unsatisfactory	R
4-6	reasonable / good / satisfied	A
7-10	very good / very satisfied / outstanding	G

## Appendix 3 - Results of 2014/15 regulatory compliance monitoring

Activity	Target	All firms % (no).	EY % (no).	Red, amber, green (RAG) status
Number of planning letters issued – all sectors.	100% issued by 30 April 2014 (all sectors).	95.8 (34)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of audit opinions issued – NHS.	100% issued by 6 June 2014 (CCG) and 9 June 2014 (NHS Trusts).	100	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of VFM conclusions issued – NHS.	100% issued by 6 June 2014 (CCG) and 9 June 2014 (NHS Trusts).	100	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Confirmation of final fee reported to audited body – NHS.	100% by 31 July 2014.	100	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of annual audit letters issued – NHS.	100% by 31 July 2014.	100	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of audit opinions issued– local government.	100% issued by 30 September 2014.	98.2 (9)	96.2 (4)	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of VFM conclusions issued - local government.	100% issued by 30 September 2014.	97.9 (11)	96.2 (4)	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of WGA returns issued.	100% issued by 3 October 2014.	96.4 (16)	95.7 (4)	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.

<b>Activity</b>	<b>Target</b>	<b>All firms % (no).</b>	<b>EY % (no).</b>	<b>Red, amber, green (RAG) status</b>
Confirmation of final fee reported to audited body – local government.	100% by 31 October 2014.	98.6 (7)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of annual audit letters issued - local government.	100% by 31 October 2014.	99.0 (5)	100	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Number of certified claims and returns.	100% submitted by the relevant deadlines.	98.3 (9)	98.9 (1)	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Submission of data returns to the Commission by the required deadline.	100% submitted by the relevant deadlines.	97.7 (105)	99.3 (6)	G >95.01% delivered or 1 missed. A 90.01 - 95.00% delivered or 2 missed. R <90.00% delivered or 3 missed.
Assessment of the quality of the submitted data returns.	Quality and accuracy of submitted data returns.	97.8 (100)	99.1 (8)	G >95.01% or 1 not at required quality level. A 90.01 - 95.00% or 2 not at required quality level. R <90.00% or 3 not at required quality level.
Number of complaints upheld against auditors.	No complaints upheld against auditors.	1	1	G = 0 upheld A = 1 R = 2 or more
Instances of non-compliance with standing guidance requirements on independence issues.	No instances of non-compliance with standing guidance.	1	0	Firm G = up to 1 A = 2 R = 3 or more  Regime G = up to 7 A = 8 R = 9 or more.

Activity	Target	All firms % (no).	EY % (no).	Red, amber, green (RAG) status
Objections decided upon within nine months.	100% of objections decided upon within nine months.	11	1	Firm G = up to 1 A = 2 R = 3 or more  Regime G = up to 7 A = 8 R = 9 or more.
Attendance of Contact Partners (or appropriate representative) at Auditors' Group, Auditors' Group sub groups/technical groups.	No meetings missed.	2	0	Firm G = up to 2 A = 3 R = 4 or more  Regime G = up to 7 A = 8 R = 9 or more.

## Appendix 4 - Summary of regulatory compliance and QRP improvement areas

Table 8- improvement areas

Area	Improvement required	Firm response
<p>Profession wide FRC annual report</p>	<p>A need for auditors to improve their scepticism in challenging the appropriateness of assumptions in key areas of audit judgment such as impairment testing and property valuation.</p> <p>A need for an improvement in the sufficiency and appropriateness of audit procedures being performed. This is common to many audit areas including revenue recognition.</p> <p>A need to adequately identify the threats and related safeguards to auditor independence and to appropriately communicate these to audit committees.</p>	<p>We agree that robust challenge of assumptions over key areas of judgment (including impairment testing and property valuation) is important and we are consistently looking to improve our approach in these areas.</p> <p>We do not believe this point relates to our firm, however we agree audit procedures must always be sufficient and appropriate, our audit approach to revenue recognition is embedded within our methodology and our training reflects the importance of this area.</p> <p>We do not believe this point relates to our firm. Our independence policy requires audit teams to consider the threats and safeguards to auditor independence and communicate these considerations to audit committees. We will remind teams of the importance of these requirements.</p>
<p>AQR review on PSAA work (across all firms)</p>	<p>Review, challenge and consider the reasonableness of management's documents and assumptions with respect to evidence obtained for the VFM conclusion, particularly in relation to increasing funding gaps at local government organisations; and in relation to the</p>	<p>We agree the importance of review and challenge of managements' assumptions, particularly in light of increasing funding gaps and the savings required within the public sector. We will provide teams with additional guidance and focussed training on this</p>

	<p>consideration of savings plans, the levels of reserves and budgetary controls.</p> <p>Clearly justify and document materiality considerations and not default automatically to the top of the materiality range.</p> <p>Consider property valuations as significant risk areas, particularly to ensure that when using external valuers in this respect they review and challenge management valuations. In addition, audit teams needs to verify the completeness and accuracy of source data used by experts and to evidence the consideration of ensuring that assets are revalued on the appropriate cycle in accordance with accounting policies.</p> <p>Evidence journals selected for testing by audit teams, while improving procedures to ensure the completeness of the population of journals considered for testing and following up on any identified control weaknesses.</p>	<p>area.</p> <p>We do not believe that the point relating to materiality applies to us. However, through training we will reinforce the need to document the considerations in relation to materiality and the judgments used for setting of materiality within the approved range.</p> <p>We agree that robust challenge of management valuations, including the work of external valuers, is required to sufficiently mitigate risks around property valuation. In addition we acknowledge the need to focus attention on the testing of source data and revaluation cycles. We will communicate the improvements required in this area to our audit teams.</p> <p>We are always looking for ways to improve our journals testing and will be setting out further guidance for teams on the follow up of selected journals.</p>
Financial statements	<p>The firm should ensure that there is clearer documentation on file to support audit judgements and audit work around the testing of controls, especially where failures in controls are found.</p> <p>The firm should ensure that there is clearer documentation on file over the consideration of non-standard management representations.</p>	<p>We believe that the issues noted were specific to the audits reviewed. Nevertheless, the importance of these points will be reiterated in our annual audit training.</p>



	The firm should ensure sufficient audit procedures are undertaken to challenge unadjusted audit differences and the sufficiency of audit disclosures, as well as over the classification of assets in the accounts	
WGA	The firm should ensure that all unadjusted errors as included in the ISA 260 are properly included in the WGA unadjusted errors schedule.	We believe that the issue noted was specific to the audit reviewed. Nevertheless, the importance of this point will be reiterated in our annual audit training.
VFM conclusions	None in addition to the AQR review points identified above.	
Housing benefit	The firm should ensure compliance with the certification instructions on housing benefit work, particularly around the need to consider whether the information recorded in the testing workbooks fully supports the conclusions reached.	We will ensure that certification instructions are followed and the documentation supports the conclusions reached. This will be emphasised as part of our annual training.
Regulatory compliance	The firm should ensure that communication with electors is clear and timely.	We agree with this point and will ensure this is applied going forward.