

# Annual Regulatory Compliance and Quality Report

**Grant Thornton UK 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 Grant Thornton UK LLP (Grant Thornton).

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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, Grant Thornton's combined audit quality and regulatory compliance rating was amber.

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 of the 2014/15 indicators scored as green. In addition, the firm's overall weighted audit quality score has increased from last year.

7 However, the firm's audit quality score for VFM conclusion work has decreased from last year, due to one file awarded a grade of 0.

8 The satisfaction survey results show that audited bodies are satisfied with the performance of Grant Thornton as their auditor.

## Detailed report

### Quality review programme

#### *FRC Inspection*

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

**10** 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 (February 2015) on the firm, the FRC concluded that audit procedures were performed to a good or acceptable standard for five of the audit engagements reviewed, with three audits requiring significant improvement.

**11** 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).

**12** 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.

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

**14** 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 Grant Thornton'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 overall with improvements required for both the financial statements audits and as improvements required which are individually or collectively significant for the VFM conclusion work.

**15** 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.

**16** Specifically for GT the AQR has noted that the Engagement Quality Control Review (EQCR) arrangements, with a £2billion gross revenue expenditure threshold above which an EQCR is required, are out of line with the other firms in the PSAA regime. The firm should reconsider this policy for PSAA work including a lower threshold.

**17** 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*

**18** 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.

**19** 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 Grant Thornton's QMRs were sufficiently detailed and rigorous for us to place reliance on all of the reviews provided by the firm, although improvement points on the financial statements review process are set out in the financial statements section below.

**20** 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**

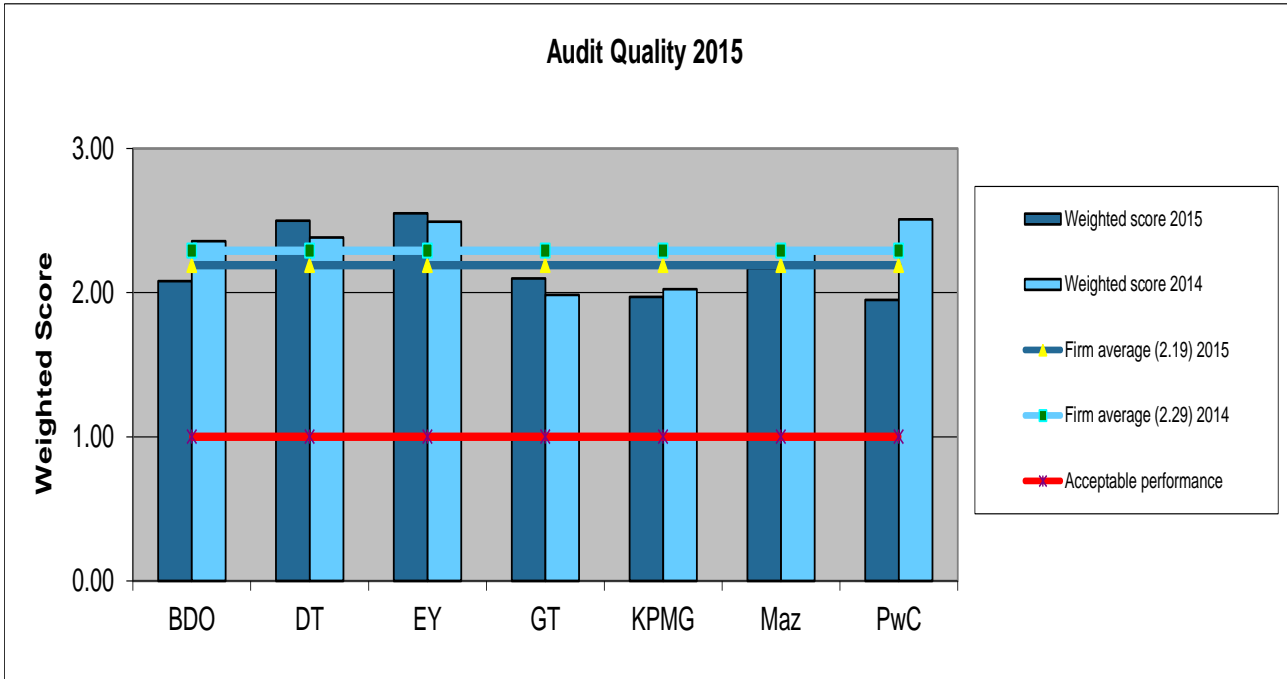
Score	Descriptor
3	Good, no improvement required
2	Acceptable with limited improvements required
1	Acceptable overall with improvements required
0	Improvements required which are individually or collectively significant

**21** Grant Thornton's score was 2.10, compared to an all firm average of 2.19. This was an improvement on last year's score of 1.98, although this year we used a slightly amended scoring base<sup>1</sup>.

<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.

22 Figure 2 shows the assessment of Grant Thornton's overall audit quality performance in comparison to other firms.

Figure 2: 2015 Comparative performance for audit quality

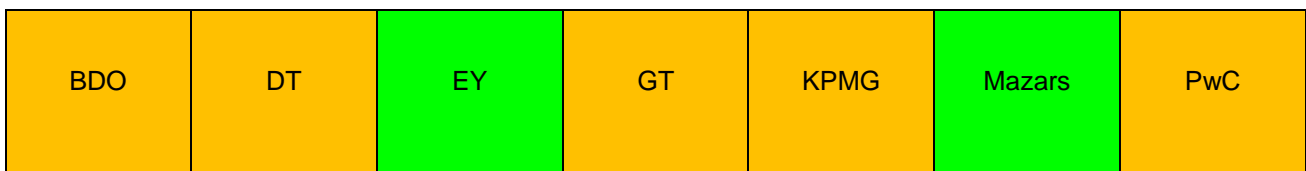


23 Our QRP methodology is designed to highlight any specific weaknesses at individual file level, specifically where our benchmark score of 1 is not met, which may have ordinarily been masked behind a high average score across the various elements (Financial statements, VFM, WGA and HB COUNT) of the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

24 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.

25 For 2014/15, Grant Thornton's overall rating for audit quality was amber. We consider each of the individual elements making up this rating below.

Figure 3: 2015 Comparative performance for audit quality





## Financial statements audit work

**26** The firm provided the results of 17 QMRs for financial statement audit files. We reviewed these and agreed with all but two of the firm assessments. Our analysis of the reviews showed inconsistencies in the level of detail relating to points raised by reviewers and also how severely a 'deficiency' was regarded for similar findings on different audit files. The firm must improve on its process for consistency checking of file reviews and on the process for converting its financial statements QMR scores to our scoring system, specifically documenting more clearly the reasons why it considers the scores awarded on our scale are appropriate.

**27** In the two cases where we did not agree with the firm, we scored the assessment lower by one grade, from a 3 to a 2. This was because in both cases improvement needs were identified by the reviewer.

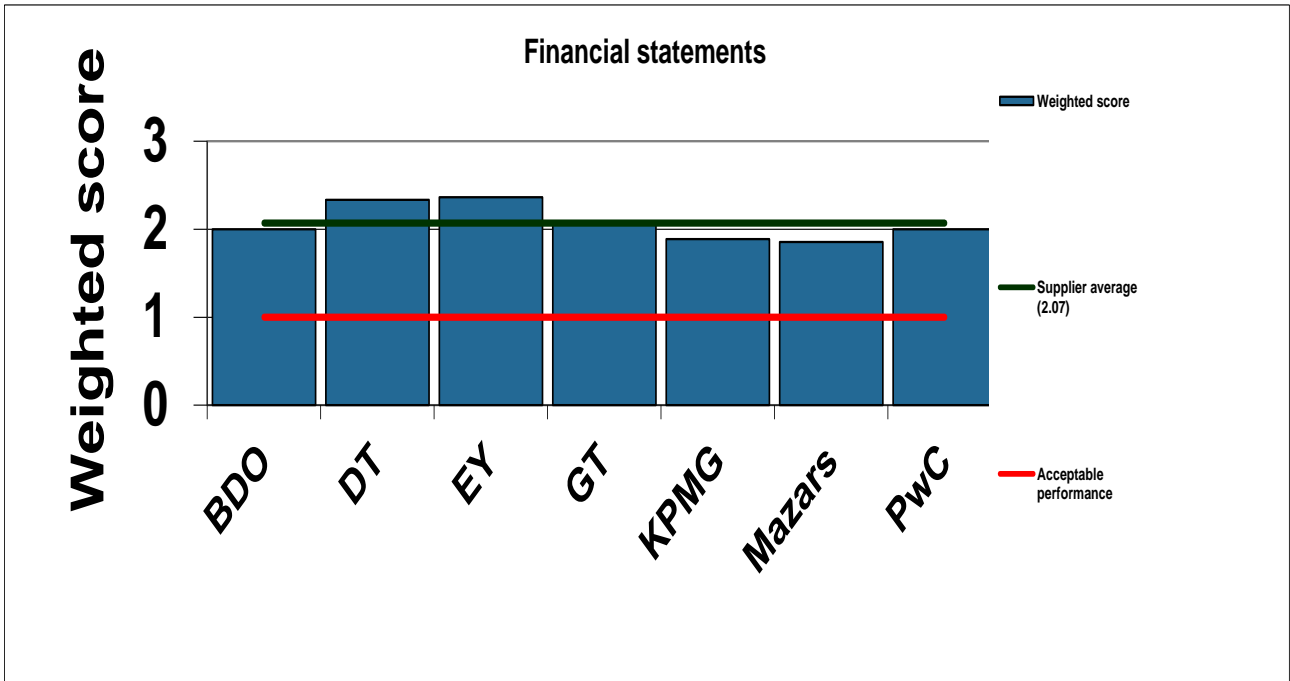
**28** The AQR review for PSAA provided a score for two additional financial statements assessments.

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

- ensuring that where the audit team have used an auditor expert, the audit team evaluates the professional competence, capabilities and objectivity of the expert;
- ensuring there is evidence on file that the audit team has documented and evaluated the internal control systems where there is an assessed risk of material misstatement due to fraud;
- ensuring that when undertaking sample testing that an appropriate and reliable basis is applied upon which the entire population is capable of selection for testing;
- ensuring that all primary statements are presented in a suitable format;
- ensuring that all pension disclosures are made correctly and that there is sufficient evidence on file over the consideration of the completeness of information provided by management to actuaries; and
- ensuring that there is sufficient evidence on file over the consideration of the design and implementation of controls over PFI liabilities.

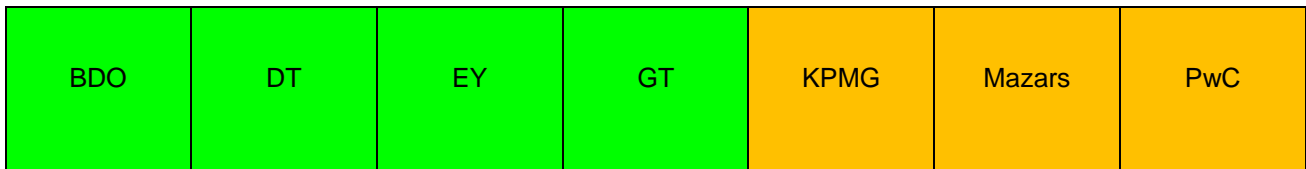
**30** Figure 4 shows the comparative performance for financial statement audit work based on the results of the QMRs and AQR review. Grant Thornton's average score was 2.05 compared to an all firm average of 2.07.

Figure 4: 2015 Comparative performance on financial statements work



31 For 2014/15, Grant Thornton’s rating for financial statements work was green.

Figure 5: 2015 Comparative performance for financial statements audit work



## Whole of government accounts returns

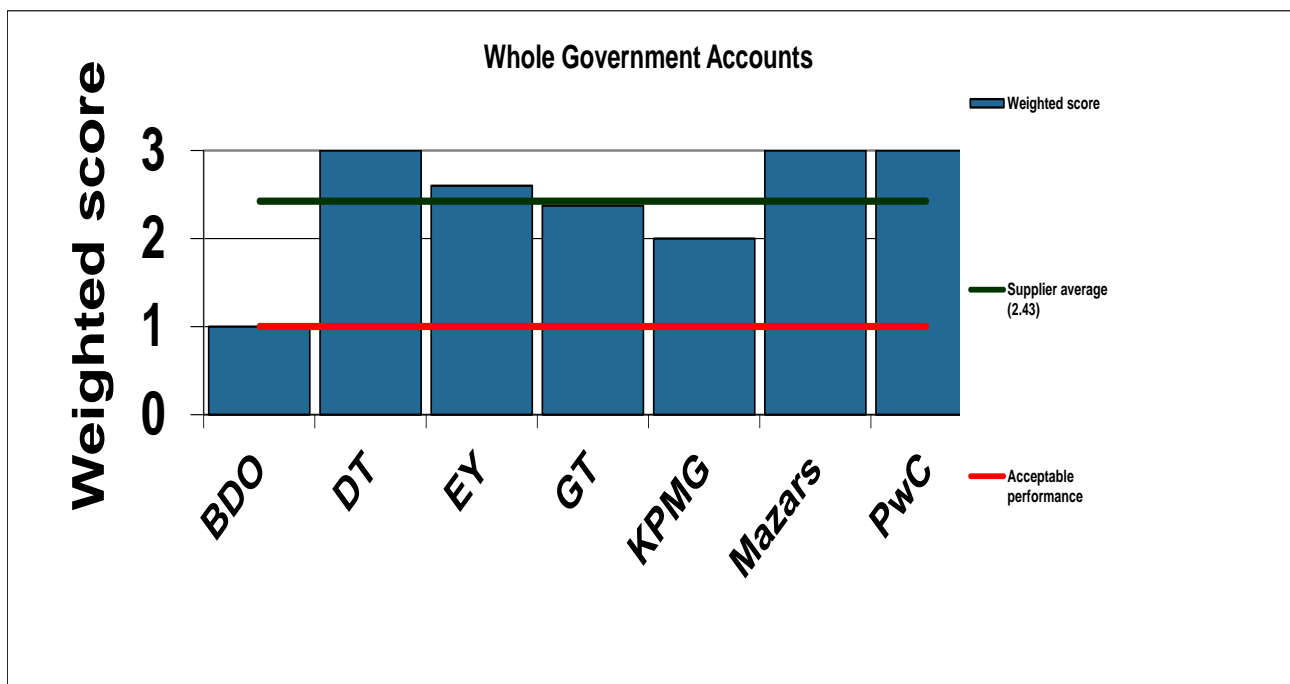
32 The firm provided the results of eight QMRs for WGA returns. We reviewed these and agreed with the assessments.

33 The improvement areas from these individual QMRs included:

- ensuring that the WGA pack is reconciled to opening balances in the primary statements and to the prior year audited WGA pack;
- ensuring that all planning steps are completed and evidenced as such before substantive procedures are undertaken.

34 Figure 6 shows the comparative performance for WGA return audit work based on the results of the QMRs. Grant Thornton's average score was 2.38 compared to an all firm average of 2.43.

Figure 6: 2015 Comparative performance on WGA work



35 For 2014/15, Grant Thornton's rating was green for WGA work.

Figure 7: 2015 Comparative performance for WGA work



**VFM conclusion audit work**

36 The firm provided the results of 12 QMRs for VFM conclusion audit files. We reviewed the results and agreed with all of the assessments.

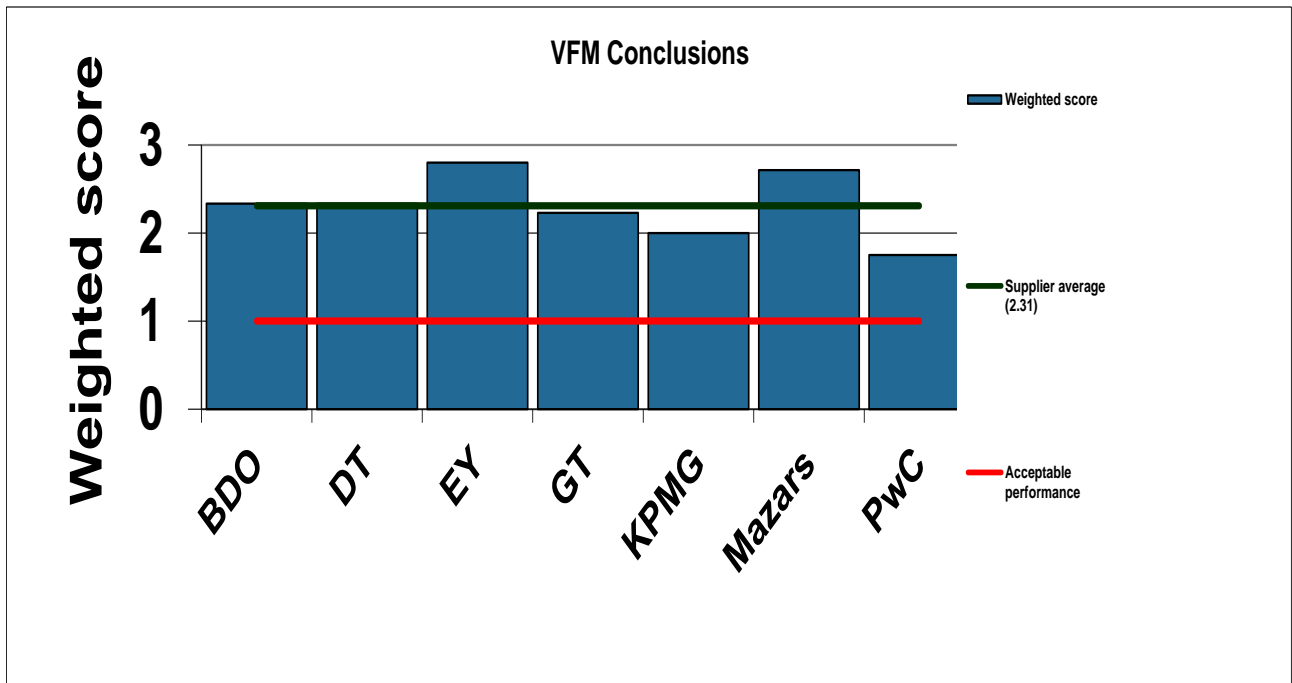
37 In addition, the AQR review for PSAA provided a score for one additional VFM conclusion assessment.

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

- ensuring there is clearer evidence on file of timely engagement lead review;
- ensuring that initial risk assessment sets out what work is planned to address any risks identified;
- ensuring that there is sufficient evidence on file over the consideration of whether an adverse, rather than an except for conclusion is appropriate in order to support the conclusion issued.

39 Figure 8 shows the comparative performance for VFM audit work based on the results of the QMRs and AQR review. Grant Thornton's score was 2.23 compared to an all firm average of 2.31.

Figure 8: 2015 Comparative performance for VFM conclusion audit work



40 For 2014/15, Grant Thornton's rating was amber because one score of 0 was awarded to VFM conclusion audit work.

Figure 9: 2015 Comparative performance for VFM conclusion audit work



## Housing benefit work

41 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.

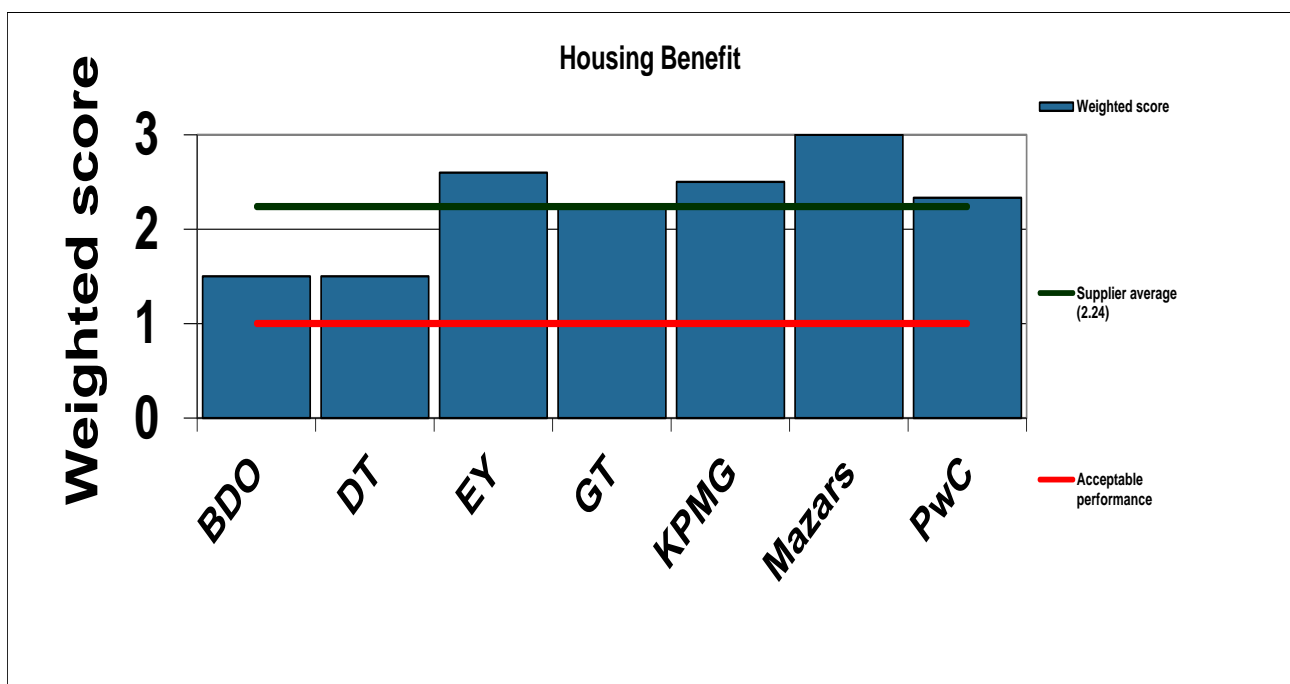
42 The firm provided the results of 12 QMRs for HB COUNT audit work. We reviewed the results of these and we agreed with all of the firm's assessments.

43 The improvement areas from these individual QMRs included:

- ensuring compliance with the certification instructions on housing benefit work, particularly around mapping conclusions against the specific test requirements;
- ensuring that there is a clearer trail of how issues raised last year are adequately cleared along with comparison to the initial testing during the year; and
- ensuring that there is clearer documentation on file of liaison with the Council over the factual content of qualification letters.

44 Figure 10 shows the comparative performance of each firm based on the QMRs. Grant Thornton's average score was 2.25 compared to an all firm average of 2.24.

Figure 10: 2015 Comparative performance for HB COUNT audit work



45 For 2014/15, Grant Thornton's rating was green for HB COUNT audit work.

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

46 In 2013/14 the Audit Commission (the Commission) reviewed the systems and procedures at Grant Thornton 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.

47 For the 2014/15 review, Grant Thornton 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 Grant Thornton's systems. We have placed reliance on the work undertaken by the Commission for this assessment.

### Quarterly monitoring of our regulatory requirements

48 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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49 The firm performed well across all of the regulatory compliance requirements, with all 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.

## Client satisfaction surveys

**50** 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.

**51** The firm received results from a sample of audited bodies (31% 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?	8.6
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?	8.1
How satisfied are you with your auditor's performance at committee meetings?	8.5
How satisfied are you with your auditor's understanding of the key issues and risks specific to your organisation?	8.4
How satisfied are you with the usefulness of your auditor's reports?	8.1
How satisfied are you with the timeliness of your auditor's reports?	8.3

**52** These results show that audited bodies are satisfied with the level of service received from Grant Thornton and for 2014/15, Grant Thornton'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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**53** 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

**54** 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 that where the audit team have used an auditor expert, the audit team evaluates the professional competence, capabilities and objectivity of the expert;
- ensuring there is evidence on file that the audit team has documented and evaluated the internal control systems where there is an assessed risk of material misstatement due to fraud;
- ensuring that when undertraining sample testing that an appropriate and reliable basis is applied upon which the entire population is capable of selection for testing;
- ensuring that all primary statements are presented in a suitable format;
- ensuring that all pension disclosures are made correctly and that there is sufficient evidence on file over the consideration of the completeness of information provided by management to actuaries;
- ensuring that there is sufficient evidence on file over the consideration of the design and implementation of controls over PFI liabilities.

#### *WGA*

- ensuring that the WGA pack is reconciled to opening balances in the primary statements and to the prior year audited WGA pack;
- ensuring that all planning steps are completed and evidenced as such before substantive procedures are undertaken.

#### *VFM*

- ensuring there is clearer evidence on file of timely engagement lead review;
- ensuring that initial risk assessment sets out what work is planned to address any risks identified;
- ensuring that there is sufficient evidence on file over the consideration of whether an adverse, rather than an except for conclusion is appropriate in order to support the conclusion issued.

#### *HB*

- ensuring compliance with the certification instructions on housing benefit work, particularly around mapping conclusions against the specific test requirements;
- ensuring that there is a clearer trail of how issues raised last year are adequately cleared along with comparison to the initial testing during the year; and
- ensuring that there is clearer documentation on file of liaison with the Council over the factual content of qualification letters.

**55** 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).	GT % (no).	Red, amber, green (RAG) status
Number of planning letters issued – all sectors.	100% issued by 30 April 2014 (all sectors).	95.8 (34)	99.7 (1)	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)	99.5 (1)	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)	99.5 (1)	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)	99.4 (1)	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>GT % (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)	98.5 (3)	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)	99.6 (8)	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)	97.7 (41)	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	0	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	1	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).	GT % (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; and</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>The firm takes the profession wide issues raised by the AQRT seriously. We have already included specific training sessions in our Annual Audit Conference held in September 2014 on scepticism, sufficiency of evidence and independence. We have supplemented these with updates for local teams at our quarterly regional audit days and with an online training programme for all audit staff aimed at ensuring ISA proficiency.</p>
<p>AQR review on Commission 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 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>We have provided specific guidance and training for auditors on the need to focus on key risk areas in respect of Value for Money, including the realism of savings plans and financial resilience. At a sector wide level, the firm will also be contributing to the National Audit Office's review of the methodology for value for money for 2015/16.</p> <p>We have provided guidance and templates for auditors to enable them to document more fully their materiality considerations.</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>In addition, specifically for GT: Reconsider the firm's EQCR policy for PSAA work.</p>	<p>We have emphasised to auditors in our most recent training session (April 2015) the need to undertake sufficient and appropriate testing of key risk areas including property valuations and journals.</p> <p>We are currently reviewing our EQCR policy for PSAA work and will update it for 2015/16.</p>
QRP- financial statements review process	<p>The firm needs to improve on its process for consistency checking of file reviews and on the process for converting its financial statements QMR scores to our scoring system, specifically documenting more clearly the reasons why it considers the scores awarded on our scale are appropriate.</p>	<p>The firm has reviewed and will improve its process for consistency checking of file reviews for 2014/15 audits. In particular, we will ensure that we improve the documentation of our decision making process around final scores.</p> <p>We will also strengthen the process for assessing file scores marked on a GT scale against the PSAA scale.</p>
Financial statements	<p>The firm should ensure that where the audit team have used an auditor expert, the audit team evaluates the professional competence, capabilities and objectivity of the expert.</p> <p>The firm should ensure there is evidence on file that the audit team has documented and evaluated the</p>	<p>We have emphasised to audit teams in training the need to ensure that all these issues are adequately addressed in the 2014/15 audit programme.</p>

	<p>internal control systems where there is an assessed risk of material misstatement due to fraud.</p> <p>The firm should ensure that when undertraining sample testing that an appropriate and reliable basis is applied upon which the entire population is capable of selection for testing.</p> <p>The firm should ensure that all primary statements are presented in a suitable format.</p> <p>The firm should ensure that all pension disclosures are made correctly and that there is sufficient evidence on file over the consideration of the completeness of information provided by management to actuaries.</p> <p>The firm should ensure that there is sufficient evidence on file over the consideration of the design and implementation of controls over PFI liabilities.</p>	
WGA	<p>The firm should ensure that the WGA pack is reconciled to opening balances in the primary statements and to the prior year audited WGA pack.</p> <p>The firm should ensure that all planning steps are completed and evidenced as such before substantive procedures are undertaken.</p>	<p>We have emphasised to audit teams in training the need to ensure that all these issues are adequately addressed in the 2014/15 audit programme.</p>
VFM conclusions	<p>The firm should ensure there is clearer evidence on file of timely engagement lead review.</p> <p>The firm should ensure that initial risk assessment sets out what work is planned to address any risks identified.</p> <p>The firm should ensure that there is sufficient</p>	<p>We have emphasised to audit teams in training the need to ensure that all these issues are adequately addressed in the 2014/15 audit programme. As indicated above, we will also be contributing to the National Audit Office review of the VFM methodology for 2015/16.</p>

	evidence on file over the consideration of whether an adverse, rather than an except for conclusion is appropriate in order to support the conclusion issued.	
Housing benefit	<p>The firm should ensure compliance with the certification instructions on housing benefit work, particularly around mapping conclusions against the specific test requirements.</p> <p>The firm should ensure that there is a clearer trail of how issues raised last year are adequately cleared along with comparison to the initial testing during the year.</p> <p>The firm should ensure that there is clearer documentation on file of liaison with the Council over the factual content of qualification letters</p>	We have emphasised to audit teams in training the need to ensure that all these issues are adequately addressed in the 2014/15 audit programme.
Regulatory compliance	None.	