

Limited Assurance Compliance Report

PKF Littlejohn LLP

February 2016

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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Monitoring of regime requirements

1 This report summarises the performance of PKF Littlejohn LLP (PKFL) against key performance indicators. Exception items are detailed in Appendix 1. The all supplier comparison is also provided.

Activity	Target	All Firms Jan-Dec % (no. missed)	PKFL Jan-Jun % (no. missed)	PKFL Jul-Dec % (no. missed)	PKFL Jan-Dec % (no. missed)	Red, Amber, Green (RAG) Status	Firm comments
Limited Assurance Audit Opinion Issued	100% by 30 September.	99.0 (104)		99.6 (9)	99.6 (9)	G >95.01% delivered. A 90.01 - 95.00% delivered. R <90.00% delivered.	
Data Returns	Quality and accuracy of submitted data returns.	9	0	1	1	G= up to 2 not at required quality level (8 for regime). A= 3 not at required quality level (9 for regime). R= 4 or more not at required quality level (10 for regime).	
Complaints	Number of complaints upheld against auditors	0	0	0	0	G = up to 1 A = 2 R = 3 or more	
Contact Partner group	Attendance at small body contact partner group meetings.	0	0	0	0	G = up to 1 meeting missed (4 for regime) A = 2 meetings missed (5 for regime) R = 3 or more meetings missed (6 for regime)	

Database management	Accuracy of number of audited bodies in firm's database.	0	0	0	0	<p>G= up to 2 not at required quality level (8 for regime). A= 3 not at required quality level (9 for regime). R= 4 or more not at required quality level (10 for regime).</p>	
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Compliance with regulatory requirements and the Quality Review Programme

Summary of overall performance

2 PSAA monitors the performance of its audit suppliers, to assess whether their work meets our regulatory requirements and quality standards. This is how we obtain, and are able to provide audited bodies and other stakeholders with, assurance that auditors within our regime are delivering audits of an acceptable quality.

3 There are two strands to our monitoring:

- first, we report on suppliers' compliance with our regulatory requirements for delivering key aspects of audits and for providing information to us. The results of this monitoring are noted in the Red, Amber, Green (RAG) table above. This strand of work also includes an assessment as to whether we can rely on each firm's systems for regulatory compliance and information assurance;
- secondly, we apply our Quality Review Programme (QRP) which includes undertaking our own reviews on a sample of audits; assessing, on a sample basis, the quality of suppliers' internal Quality Control Review (iQCR) work; and seeking the views of audited bodies on their auditor via a satisfaction survey undertaken by each firm.

4 We have assessed the overall quality of work on a four point scale, consistent with the scale used in our principal audit regime. This scale is: 'Improvements required which are individually or collectively significant'; 'Acceptable overall with improvements required'; 'Acceptable with limited improvements required'; and 'Good, no improvement required'.

5 From the work undertaken, we have concluded that:

- PKFL has performed well against our key compliance indicators;
- we can continue to rely on the firm's systems for regulatory compliance;
- we can continue to rely on the firm's systems for information assurance;
- the quality of limited assurance audit work performed by the firm is: Acceptable with limited improvements required; and
- audited bodies are satisfied with the performance of PKFL as their appointed auditor.

6 Improvement areas for the firm are detailed below and are summarised in Appendix 2.

Compliance with regulatory requirements

Performance indicators

7 The firm has performed well across our key performance indicators, all of the five indicators being rated as green. The full results of the 2015 regulatory compliance

monitoring RAG ratings, comparing the firm's performance against the overall performance for all firms, are detailed at the top of this report.

8 By 30 September 2015, the firm had issued the opinion and certificate on the 2014/15 Annual Return at 99.6 per cent of audited bodies (99.7 per cent in 2013/14).

Information assurance review

9 During 2015, PSAA instructed its Internal Auditor (TIAA) to undertake a review of the firm's information assurance arrangements based on a return completed by the firm. The review considered whether the firm met the requirements of information governance legislation. There were no significant issues arising as a result of this review and we concluded that we could continue to rely on the firm's arrangements.

Systems for regulatory compliance

10 Following contract award in 2012 we tested the firm's systems and procedures for ensuring compliance with our regulatory compliance requirements. We examined evidence of how the systems were working and identified some improvements to regulatory compliance systems, all of which were implemented after our review.

11 Last year our conclusion was that we could place reliance on the firm's systems and procedures for monitoring compliance with our regulatory and information assurance requirements. For this review, the firm confirmed that its systems and procedures had not changed for regulatory compliance or its information assurance arrangements. Nothing has come to our attention in year to suggest this is not correct, and we concluded that we could continue to rely on the firm's systems.

The Quality Review Programme

QRP and iQCR

12 The QRP for 2014/15 audits included undertaking our own reviews on a sample of audits and assessing, on a sample basis, the quality of suppliers' iQCR work.

13 The firm undertook 32 of its own reviews: 24 basic audits; and eight intermediate audits. In addition, we visited the firm in November 2015 and reviewed in detail our own sample of five audits: two basic audits; and three intermediate audits.

14 We also reviewed the firm's iQCR work, including reperformance of two of the firm's reviews. Our reperformance of a sample of the firm's internal reviews did not highlight any significant weaknesses in the firm's iQCR work.

15 From the review work, we have concluded that the overall quality of limited assurance audit work performed by the firm is: Acceptable with limited improvements required. This is an improvement of one grade on our assessment of the firm's 2013/14 work.

16 As detailed below, there are some key improvement areas for PKFL to address for 2015/16 arising from the specific audit file reviews:

- we noted three cases where the documentation on file did not provide a full and valid explanation for analytical review variances;

- we noted one case where the quality of working papers held on file needed improvement;
- we noted two cases where the firm had not addressed material instances of non-compliance with proper practice; and
- we noted four cases where the documentation of judgments was not clear on the file.

Satisfaction surveys

17 All firms in the limited assurance regime agreed to undertake client satisfaction surveys for 2014/15 audits, and to report the results to PSAA. PSAA specified questions to be included in the survey and asked firms to provide us with an analysis of the results.

18 The firm distributed the survey to 2015 audited bodies on completion of their 2014/15 audit and achieved a response rate of 23.6 per cent (476 bodies). Table 1 details the questions and the average score.

Table 1: **Client satisfaction survey**

Question	Average score (max. 10)
1) How satisfied are you with your overall experience with PKFL during the audit for the year ended 31 March 2015?	9.2
2) How satisfied are you with the clarity of the information sent to you with the Annual Return?	9.2
3) If the firm contacted you with a request for further information or with queries relating to the audit after your initial submission, how satisfied were you with:	9.4
a) the timeliness of the request for information or query?	
b) the clarity of the request for information or query?	8.9
4) If any matters were brought to your attention on completion of the audit in section 3 of the Annual Return, how satisfied are you that the matters raised were helpful and easy to understand?	8.9
5) If you contacted the audit team for general information or assistance, how satisfied were you with the outcome?	9.2

19 These results show that audited bodies are, on the whole, very satisfied with the level of service received from PKFL.

Appendix 1- Exception items

Table 2: **Data returns**

Data return issues identified

Return	Issue
September 2015 WIP	Qualifications data tab incomplete (cells left blank).

Appendix 2- Summary of regulatory compliance and QRP improvement areas

Area	Improvement required	Firm response
Compliance with regulatory requirements	None.	
QRP	In all cases, the documentation on file should provide a full and valid explanation for analytical review variances.	Whilst we request numerical values to be included in the explanation, we also rely on the narrative information and any other evidence that may be apparent that gives a reasonable explanation of the variance. In future where sufficient numerical values have not been provided, we will seek additional information from bodies.
	The firm should ensure that, in all cases, the quality of working papers held on file is good.	We will remind all auditors to ensure they consistently produce good quality working papers.
	The firm should ensure that, in all cases, it addresses material instances of non-compliance with proper practice.	These findings relate to ensuring that prior year figures are marked as 'restated' when they had been reported correctly in line with prior year external audit reports. The firm's approach was to not raise an 'other' matter where the prior year figures were correct and as reported in the prior year published Annual Return in the external auditor report. All references within the Practitioners Guide to marking figures as 'restated' relate to amendments that occurred after the prior year Annual Return had been published and were thus not in the public domain or within the knowledge of the external auditor. We will seek clarification on this point from the National Audit Office as part of reconsidering our approach.

	<p>The firm should ensure that, in all cases, there is clear documentation on file of auditor judgments.</p>	<p>This relates to the consideration of whether a body has acted within its powers when incurring expenditure. We are confident that this is fully addressed and is followed up where we have concerns. Clearly where there are concerns the file will evidence the actions taken. To cover the majority of cases, we will add a specific affirmative confirmation that the point has been considered and that nothing has come to our attention. This will be added to the completion programme and hence be signed off by the Engagement Lead.</p>
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