

Annual Regulatory Compliance and Quality Report

BDO LLP

July 2018

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 a number of statutory functions (from the Audit Commission Act 1998) to PSAA on a transitional basis by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.

As a consequence of these delegations, for 2017/18 the company will continue to be responsible under transitional arrangements for appointing auditors to local government and police bodies, for setting audit fees and for making arrangements for certification of housing benefit subsidy claims.

Looking beyond 2017/18, the Secretary of State has specified PSAA as an appointing person for principal local government bodies from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2016

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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 2016/17 year of account; and
 - regulatory compliance- reporting quarterly on audit firms' compliance with our regulatory requirements as set out in the Terms of Appointment.
- 3 The audit quality and regulatory compliance monitoring for 2017/18 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 internal quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) arrangements conclusion 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 firms systems for quality control and monitoring;
 - a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of 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 15 key indicators relating to our Terms of Appointment requirements;
 - a review of each firms' systems to ensure they comply with our regulatory and information assurance requirements; and
 - a review of each firm's client satisfaction surveys for 2016/17 work.
- 4 This report summarises the results of our monitoring work for BDO LLP.

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.

6 For 2017/18, BDO's combined audit quality and regulatory compliance rating was amber.

Figure 1: 2018 Comparative performance for audit quality and regulatory compliance

BDO	EY	GT	KPMG	Mazars
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7 BDO's overall weighted audit quality score of 1.58 is consistent with their prior year score of 1.62.

8 BDO was rated amber against the regulatory compliance indicators, with eleven indicators scored as green and four as red.

9 The satisfaction survey results show that audited bodies are very satisfied with the performance of BDO as their auditor.

Detailed report

Quality review programme

FRC Inspection

10 Every year each firm provides a self-assessment in the form of a transparency report issued in accordance with the requirements of the Professional Oversight Board of the FRC. Our review of the latest BDO transparency report did not highlight any significant issues of note.

11 Annually, the FRC publishes reports on the audit firms subject to full scope FRC inspections, including firms in our regime. 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 and certain other bodies. The reports focus on the key areas requiring action by the firm to safeguard and enhance audit quality. They do not seek to provide a balanced scorecard of the quality of a firm's audit work.

12 In its latest public report on BDO, the FRC reported on eight engagement reviews. In seven cases they concluded that audit procedures were performed to an acceptable standard. No audits were identified as requiring significant improvement compared with one in the previous year.

13 From its assessment of all firms, the FRC has identified key issues which firms need to address in order to improve audit quality. These were the:

- challenge and scepticism of management in key areas involving judgment, such as impairment reviews, asset valuations and provisions;
- group audit team's oversight and challenge of component auditors;
- audit of company pension scheme assets and liabilities; and
- arrangements for ensuring compliance with the Ethical Standard and independence requirements.

14 We have raised these issues with BDO and with all other firms in our regime and we will continue to monitor progress in these areas.

15 We also commissioned inspections of all firms by the FRC's Audit Quality Review Team (AQRT) for this year's QRP. The AQRT inspected one financial statements opinion and one VFM arrangements conclusion file from BDO's 2016/17 PSAA work and provided an updated commentary on the applicability of firm-wide procedures to our audits. Having considered the review points raised by the AQRT, we assessed the financial statements audit as '0' (significant improvements required). This was the same rating as assessed by the firm's QMR of that audit. The VFM arrangements conclusion work was assessed as '2' (acceptable with limited improvements required).

16 The principal issues resulting from the AQRT reviews of financial statement audits, across all the firms, following this year's programme of work for PSAA were:

- the involvement of the Responsible Individual and Engagement Quality Control reviewers in the areas of key audit significance not being timely and to the level

expected and a causal factor for many of the issues identified at the audits for which they were responsible;

- insufficient challenge and independent corroboration of management experts' valuations of property, plant and equipment (PPE) and other fixed assets, including approach to beacon properties;
- insufficient consideration of how an expert's valuation at the start of the accounting year remained valid and appropriate at the year end;
- need to improve the linkage between specific risks identified and the planned audit response;
- insufficient audit work over the valuation and allocation of pension scheme assets, testing of information (including non-financial data) provided to actuaries and direction and review of the pension fund auditor;
- lack of evidence of local audit team's oversight when acting as a group auditor in the presence of significant components; and
- insufficient challenge of management to take responsibility for decisions on accounting treatment and disclosures (e.g. by requiring technical papers).

17 In respect of VFM arrangements work, the AQRT reported:

- a lack of evidence relating to audit team's discussions with non-finance staff and senior management.

18 We have combined our scores for the AQRT 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

19 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 2017/18 we relied on each firm's own quality monitoring arrangements.

20 All firms agreed to follow PSAA's methodology and reporting format for their QMRs for VFM arrangements conclusion and HB certification work and to use their own methodology for assessing work on the financial statements (converting their financial statements assessment to our scoring system). We were able to place reliance overall on the QMRs completed on financial statement and HB Certification work. Additional information was requested from the firm to conclude our determination of the VFM conclusion scores as the QMRs were not sufficiently detailed for us to place reliance on the initial submission.

21 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.

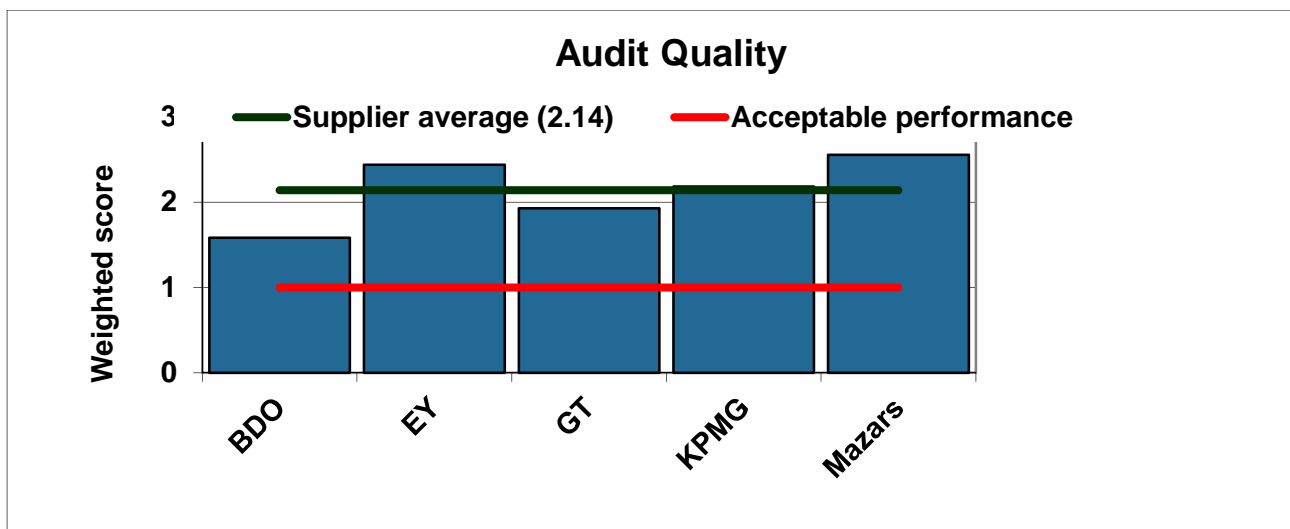
Table 1: PSAA assessment scale

Score	Descriptor
3	Good
2	Acceptable with limited improvements required
1	Acceptable overall with improvements required
0	Significant improvements required

22 BDO’s score was 1.58, compared to an all firm average of 2.14. This was consistent with the previous year’s score of 1.62.

23 Figure 2 shows the assessment of BDO's overall audit quality performance in comparison to other firms.

Figure 2: 2018 Audit quality performance



24 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 arrangements and HB certification) of the QRP.

25 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. Where a firm has three individual scores of 0, then the overall rating is red.

26 For 2017/18, BDO's overall rating for audit quality was amber as one financial statement audit was rated '0' (significant improvements required). We consider each of the individual elements making up this rating below.

Figure 3: 2018 Comparative performance for audit quality

BDO	EY	GT	KPMG	Mazars
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Financial statements audit work

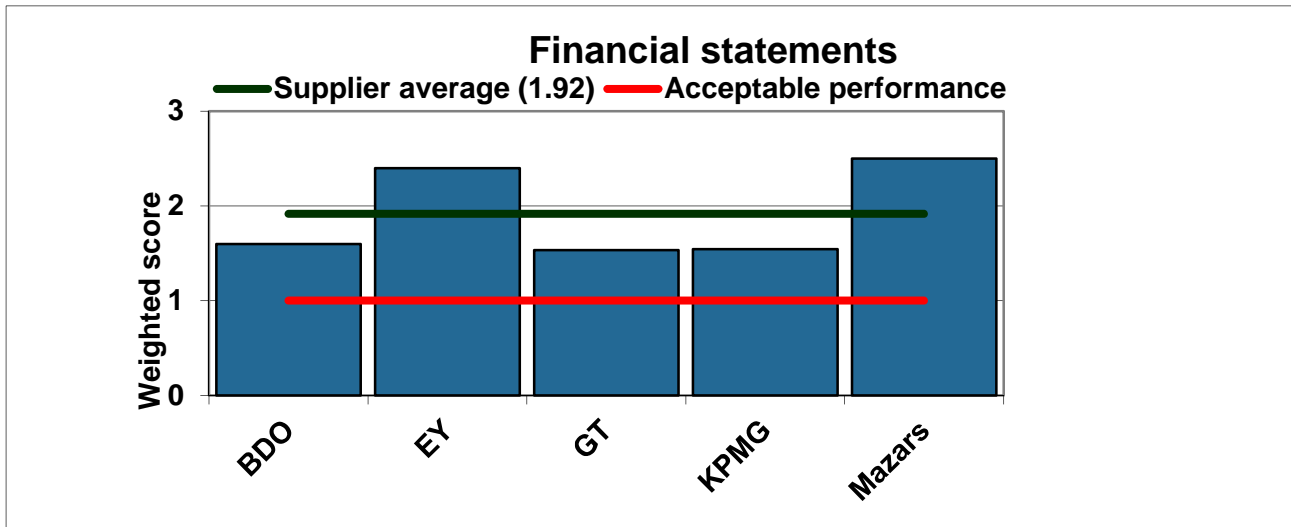
The firm provided the results of four QMRs for financial statement audit files (where an audit was also reviewed by the FRC only one score was used in our model). We reviewed these and agreed with the firm's assessments.

27 The improvement areas from these reviews included:

- obtaining better evidence to support PPE valuations and judgements;
- better documenting challenge to PPE assumptions; and
- better documenting audit sampling, journals testing and the validity of information prepared by the entity.

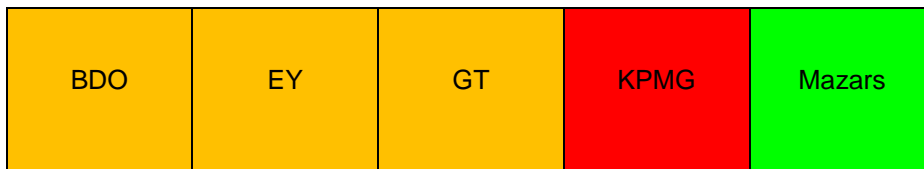
28 In addition, the AQRT reviews for PSAA provided a score for a financial statement assessment which had also been subject to internal quality monitoring. Figure 4 shows the comparative performance for financial statement audit work based on the results of these reviews. BDO's average score was 1.6 compared to an all firm average of 1.92.

Figure 4: 2018 financial statements performance



29 For 2016/17 audit work, BDO's rating for financial statements work was rated amber because one financial statement audits was scored as 0 (significant improvements required).

Figure 5: 2018 Comparative performance for financial statements audit work



VFM conclusion audit work

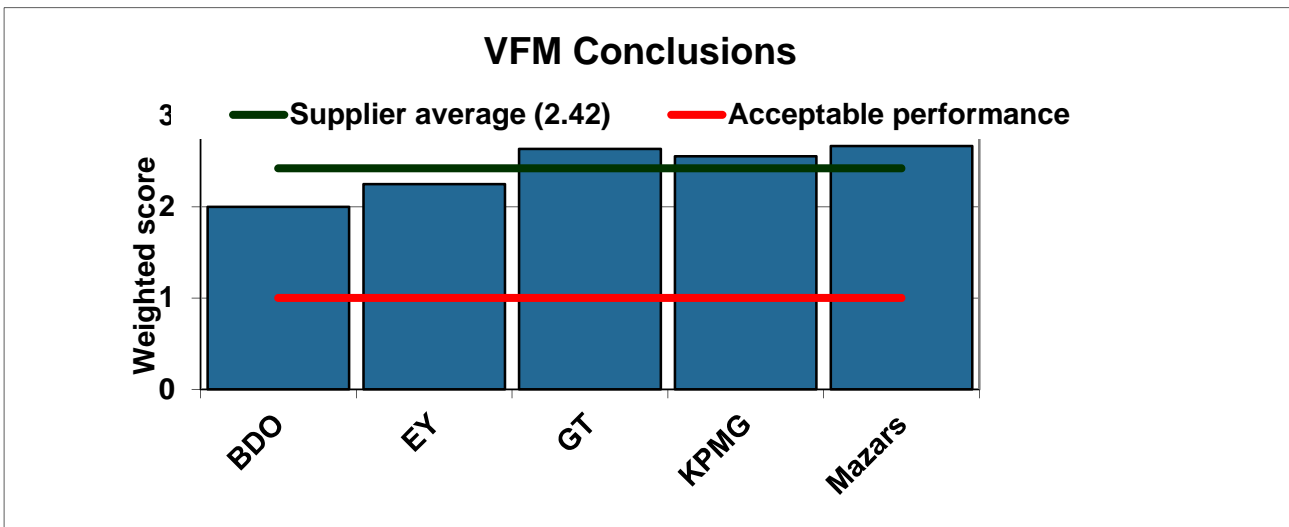
30 The firm provided the results of two QMRs for VFM arrangements conclusion audit work. We reviewed the results and agreed with the assessments. In addition, the AQR review for PSAA provided a score for one additional VFM arrangements conclusion assessment

31 The improvement areas from these individual QMRs and the AQRT review included:

- ensuring that changes to required work as identified in the Audit Plan is communicated to 'Those charged with governance';
- clearer evidencing of the dates of work completion and review; and
- ensuring clearer documentation on file of the judgements reached.

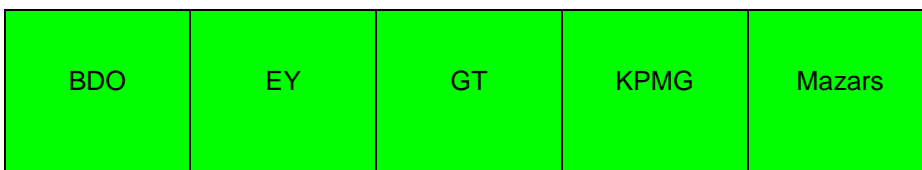
32 Figure 6 shows the comparative performance for VFM audit work based on the results of the QMRs and the AQRT review. BDO's score was 2.00 compared to an all firm average of 2.42.

Figure 6: 2018 VFM conclusion performance



33 For 2016/17 VFM arrangements conclusion work, BDO's rating was green.

Figure 7: 2018 Comparative performance for VFM conclusion audit work



Housing benefit work

34 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.

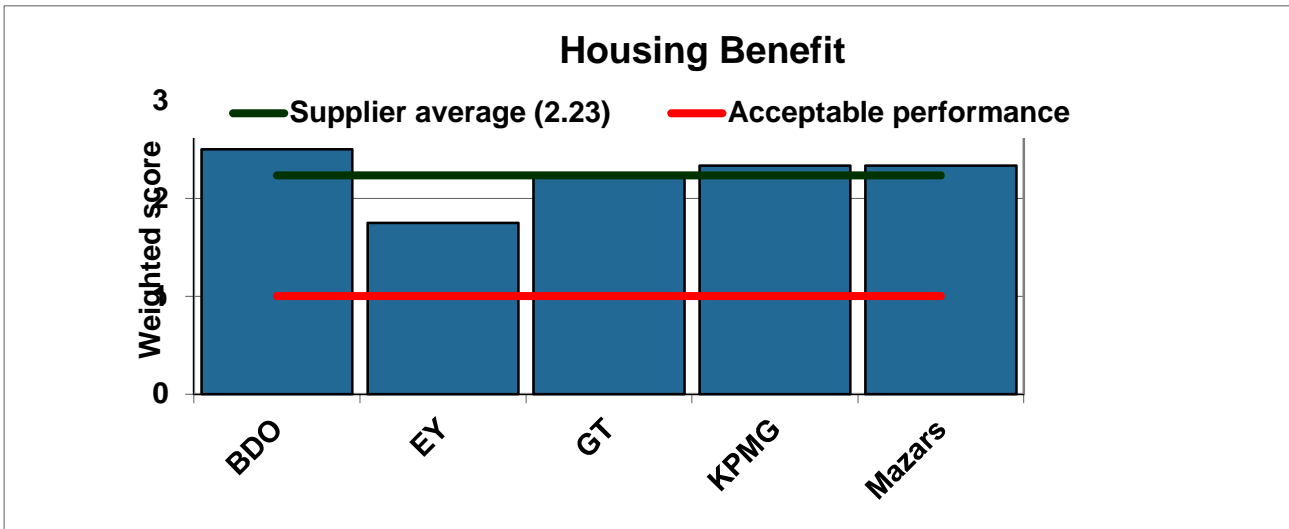
35 BDO provided the results of two QMRs for HB COUNT work. We reviewed the results of these and we agreed with the BDO's assessments.

36 The improvement areas from these individual QMRs included:

- ensuring clear documentation of audit trails, conclusions and extrapolations.

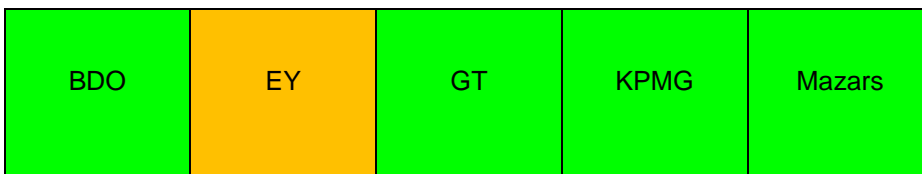
37 Figure 8 shows the comparative performance of each firm based on the QMRs. BDO's average score was 2.5 compared to an all firm average of 2.23.

Figure 8: 2018 HB COUNT performance



38 For 2017/18, HB Count certification work BDO’s rating was green.

Figure 9: 2018 Comparative performance for HB COUNT audit work



Regulatory compliance

Systems for compliance with our regulatory requirements

39 In 2017/18, BDO confirmed to PSAA that its systems and procedures for regulatory compliance were the same as those in the previous year. Nothing came to PSAA’s attention in year to suggest this is not correct, and we concluded that we could continue to rely on BDO’s systems.

Systems for compliance with our information assurance requirements

40 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 BDO. The review considered whether the firm met the requirements of information governance legislation. There were no issues arising as a result of this review and we concluded that we could rely on the firm’s arrangements. In 2017 the firm provided updated information on the systems underpinning its information assurance arrangements and we have concluded that we can continue to rely on them for regulatory compliance.

Quarterly monitoring of our regulatory requirements

41 PSAA 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 10 details the firm's overall regulatory compliance RAG rating compared to other firms.

Figure 10: 2018 Comparative performance for regulatory compliance

BDO	EY	GT	KPMG	Mazars
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42 The firm generally performed well across eleven of the regulatory compliance requirements. There were three authorities where the firm was unable to issue its opinions in line with the target date and was consequently unable to issue a VFM arrangements conclusion. The firm was unable to certify WGA returns for a further seven authorities. These three indicators were rated red:

- issue of LG opinions (red);
- issue of LG VFM arrangements conclusions (red); and
- issue of WGA reports (red).

43 The firm was also rated red in respect of the timeliness of the resolution of elector objections, as there were seven objections not dealt with in nine months outstanding as at 31 March 2018.

44 As four indicators were rated as red the firms overall rating for regulatory performance was amber.

45 We have included a summary at Appendix 3 of the results of the 2017/18 regulatory compliance monitoring RAG ratings, comparing the firm's performance against the overall performance for all firms.

Client satisfaction surveys

46 All firms agreed to undertake client satisfaction surveys for 2016/17 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.

47 The firm received results from a sample of audited bodies on completion of their 2016/17 audit. Table 2 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?	7.8
How satisfied are you with the technical competence and skills of your audit team?	7.5
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?	8.2
How satisfied are you with the usefulness of your auditor's reports?	7.5
How satisfied are you with the timeliness of your auditor's reports?	7.5

These results show that audited bodies are, on the whole, very satisfied with the level of service received from BDO and for 2016/17 work, BDO's rating for client satisfaction was green.

Figure 11: **2018 Comparative performance for client satisfaction**

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

Recommendations

Recommendations arising from the 2017/18 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

- obtaining better evidence to support PPE valuations and judgements;
- better documenting challenge to PPE assumptions; and
- better documenting audit sampling, journals testing and the validity of information prepared by the entity.

VFM

- ensuring that changes to required work as identified in the Audit Plan is communicated to 'Those charged with governance';
- clearer evidencing of the dates of work completion and review; and
- ensuring clearer documentation on file of the judgements reached.

HB

- ensuring clear documentation of audit trails, conclusions and extrapolations.

Compliance

- No issues

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 quality team and then communicated to staff.

51 In 2018 we asked the AQRT to revisit some audits that had scored poorly in 2017 to confirm that the firms had implemented appropriate actions to address identified weaknesses. They reported that the action plans agreed, had not, in all cases been implemented completely. We expect firms to have systems in place such that the necessary improvements to procedures are made in the next audit cycle.

Appendix 1 – Weightings to calculate overall quality score

Table 3: **Weightings**

Audit element	Local government 60%	NHS 40%
Financial statements	60	70
VFM Conclusions	30	30
HB	10	-
Total	100	100

Appendix 2 - Audit quality and regulatory compliance RAG rating

Table 4: QRP elements of financial statements, VFM conclusions and housing benefit work.

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

Table 5: Regulatory compliance RAG rating based on 15 quarterly monitoring

Rating	Overall Firm level score- indicators
Green	11 or more at green and no more than two at red.
Red	Six or more indicators at red.
Amber	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

Firm assessment (average)	Firm unsatisfactory – satisfactory assessment (average)	PSAA RAG rating
0 – 5 0 - 10		
0-1.5 0 - 3	very dissatisfied / dissatisfied / unsatisfactory	R
1.5 – 3.5 4 – 6	reasonable / good / satisfied	A
3.5 – 5 7 - 10	very good / very satisfied / outstanding	G

Appendix 3 - Results of 2016/17 regulatory compliance monitoring

Activity	Target	All Suppliers % (no.)	BDO % (no.)	Firm Comments
Issue of planning (fee) letters.	100% by 30 April 2017. Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered of 3 or more missed	100% (0)	100% (0)	
Issue of NHS audit opinions.	100% by 31 May 2017 (CCG) and 1 June 2017 (NHS Trusts). Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered of 3 or more missed	100% (1)	100% (0)	
Issue of NHS VFM conclusions.	100% by 31 May 2017 (CCG) and 1 June 2017 (NHS Trusts). Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered of 3 or more missed	100% (1)	100% (0)	
Issue of local government audit opinions.	100% by 30 September 2017. Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered of 3 or more missed	95% (27)	82% (3)	These delays were caused by circumstances beyond the firm's control.
Issue of local government audit VFM conclusions.	100% by 30 September 2017. Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered of 3 or more missed	94% (31)	82% (3)	These delays were caused by circumstances beyond the firm's control.
Issue of WGA reports.	100% by 29 September 2017. Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered of 3 or more missed	87% (63)	41% (10)	These delays were caused by circumstances beyond the firm's control.
Confirmation of final NHS fee to audited bodies	100% by 31 July 2017 Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered of 3 or more missed	100% (0)	100% (0)	
Issue of NHS annual audit letters.	100% by 31 July 2017 Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered of 3 or more missed	100% (0)	100% (0)	
Confirmation of final local government fee to audited bodies	100% by 30 October 2017 Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered of 3 or more missed	100% (0)	100% (0)	
Issue of local government annual audit letters.	100% by 30 October 2017 Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered of 3 or more missed	100% (0)	100% (0)	

Source: PSAA

2017-18 QRP Monitoring Spreadsheet/ 20/06/2018

Activity	Target	All Suppliers % (no.)	BDO % (no.)	Firm Comments
Audited body database information.	Accurate database information provided to PSAA. Green>95.01% delivered or only 1 missed Amber 90.01% to 95% delivered or only 2 missed Red<90% delivered of 3 or more missed	100% (1)	100% (0)	
Complaints upheld against auditors.	Complaints upheld against auditors. Green 0 Upheld Amber 1 upheld Red 2 or more upheld	1	0	
Non-compliance with requirements on independence issues.	Instances of non-compliance. Firms: Green 1 case Amber 2 cases Red 3 or more cases Regime: Green Up to 5 cases Amber 6 or 7 cases Red 8 or more cases	0	0	
Attendance at Contact Partner Meetings	Attendance of Contact Partner at all meetings. Firms: Green 1 case Amber 2 cases Red 3 or more cases Regime: Green Up to 5 cases Amber 6 or 7 cases Red 8 or more cases	0	0	
Consideration of objections	Outstanding objections not determined within 9 months. Firms: Green 1 case Amber 2 cases Red 3 or more cases Regime: Green Up to 5 cases Amber 6 or 7 cases Red 8 or more cases	28	7	

Appendix 4 - Summary of regulatory compliance and QRP improvement areas

Table 8: Improvement areas

Area	Improvement required	Firm response
Key messages from FRC annual reports	<p>A need for auditors to demonstrate scepticism and challenge management in key areas involving judgment, such as impairment reviews, asset valuations and provisions;</p> <p>A need for the group audit teams to have better oversight of and challenge of component auditors;</p> <p>A need to improve the audit of company pension scheme assets and liabilities; and</p> <p>Firms to improve arrangements for ensuring compliance with the Ethical Standard and independence requirements.</p>	<p>Demonstrate Scepticism and Challenge Management</p> <p>We acknowledge that this is a key area of the audit, which is a constant feature in key messages from the FRC. Specific comments in our report this year were to include evidence of appropriate challenge in relation to areas of judgement.</p> <p>We performed a root cause analysis which suggested that the insufficiency of evidence on the file either stems from evidence being obtained but not being put on the file or inappropriate assessment by members of the audit team of the sufficiency of the evidence obtained.</p> <p>As we noted in our public report we are undertaking a number of actions in order to address this issue:</p> <ul style="list-style-type: none"> • refreshing our guidance as to what evidence is added to the audit file – there is some inconsistency in the way different teams deal

		<p>with audit evidence which leads to issues arising. This includes within the file but also within the ISA 260 communications with those charged with governance; and</p> <ul style="list-style-type: none"> • understanding the evidence we need in particular in relation to judgemental areas where we are dealing with assumptions and estimations and how this is to be presented in the file is a key element of the planning stage of the audit. The Audit Stream Executive have asked each office and sector to consider planning and improvements needed at a local level to ensure we are getting this right. <p>Group audit team oversight and challenge of component auditors</p> <p>We note that this is an area that needs continual focus, particularly in relation to some of the new clients we have taken on, and we will monitor via the internal AQAR review.</p> <p>Our approach has included:</p> <ul style="list-style-type: none"> • a focus on ISA 600 and group audits a few years ago which teams have adopted; and • component auditors either not being used in many cases (where the group audit team perform the audit work on the entire group) or the few audit teams using component auditors
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		<p>having significant experience in this area and employing an approach that works and has previously stood up to robust review.</p> <p>Audit of Pension Scheme Assets and Liabilities</p> <p>We have released guidance in this area in 2017 with particular focus on:</p> <ul style="list-style-type: none"> • treating the audit of the assets and liabilities as separate – not netting off and auditing the balance; • how to acquire audit evidence for pension scheme assets; and • how to audit pension scheme liabilities including the use of experts in this area. <p>This guidance was released as a consequence of previous findings. It should be noted that the use of experts to assist with the valuation of pension scheme liabilities was highlighted as an area of good practice by the FRC in their review.</p> <p>Compliance with Ethical Standards and Independence requirements</p> <p>We have implemented a number of actions in relation to comments raised in this area by the FRC:</p>
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		<ul style="list-style-type: none"> • compliance testing of financial interests was extended to all staff at the beginning of April 2018; • at the request of the Leadership Team, the extent of monitoring of financial interests will be revised to prioritise higher risk individuals and an IT system for recording financial interests will be evaluated; and • we have implemented monitoring of the reporting of ethical and independence breaches to audit committees where this is necessary. <p>At the start of July 2018 we released our annual internal magazine Quality Matters 'Regulator Special' for the audit stream which summarised all of the FRC key messages from the reports issued in July and how to learn lessons to apply to our audits.</p>
AQR review on PSAA work (across all firms)	<p>Ensure the involvement of the Responsible Individual and Engagement Quality Control reviewers in the areas of key audit significance is timely and to the level expected;</p> <p>Ensure sufficient challenge and independent corroboration of management experts' valuations of property, plant and equipment (PPE) and other</p>	<p>All Partners, Directors and Managers have been briefed on the findings of the AQR reviews on PSAA work and our internal and external reviews of PSA audits and are required to ensure that they are addressed in the 2017/18 audits and teams are briefed on the specific matters arising.</p> <p>RIs and EQCRs are reminded each year of the need to evidence their appropriate and timely</p>

	<p>fixed assets, including approach to beacon properties;</p> <p>Ensure sufficient consideration of how an expert's valuation at the start of the accounting year remained valid and appropriate at the year end;</p> <p>Better evidence the linkage between specific risks identified and the planned audit response;</p> <p>Better evidence audit work over the valuation and allocation of pension scheme assets, testing of information (including non-financial data) provided to actuaries and direction and review of the pension fund auditor;</p> <p>Better document of local audit team's oversight when acting as a group auditor;</p> <p>Improve challenge of management to take responsibility for decisions on accounting treatment and disclosures (e.g. by requiring technical papers); and</p> <p>Better evidence audit team's discussions with non-finance staff and senior management when undertaking VFM arrangements conclusions work.</p>	<p>engagement in the audit, with sufficient depth of input to areas of key audit significance. This was covered at our mandated Technical update training for audit seniors and above and a bespoke training session was also run for all EQCRs new to the role in public sector. Enhanced documentation requirements for EQCRs were introduced as part of the revised ISAs.</p> <p>We will continue to train our staff to ensure that appropriate professional scepticism is applied when reviewing management experts' valuations of property, plant and equipment and that this is fully documented on audit files. Any managers and above working on AQR in scope engagements attended a forum in autumn 2017 which included a training session on the ICAEW's 'False Assurance' which includes a focus on professional scepticism. A targeted training session on the audit of PPE valuations was included in our mandated training.</p> <p>Our audit software (APT) and our reporting templates drive clear links in this respect. We will encourage teams to use the full functionality of the APT Risk Reporting template to ensure that this is clearly demonstrated on the file.</p> <p>In 2017 we produced new guidance on the audit of employee benefits. We have also updated our</p>
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		<p>template for recording the use of management experts in respect of the actuary and updated the assurance request letter to the auditor of the pension fund, to support staff with better design and evidence of audit work undertaken in these areas.</p> <p>See above comments under Group audit team oversight and challenge of component auditors</p> <p>See above comments under Demonstrate Scepticism and Challenge Management</p> <p>All staff involved in VFM work have been briefed on the findings of quality reviews on this work. Staff have been trained to understand the importance of speaking to non-financial staff and including a record of meetings held.</p>
Financial statements	<p>Obtaining better evidence to support PPE valuations and judgements;</p> <p>Better documenting challenge to PPE assumptions; and</p> <p>Better documenting audit sampling, journals testing and the validity of information prepared by the entity.</p>	<p>The specific detailed findings of the financial statements reviews completed in 2016/17 have been shared in 2017/18 through our mandated technical update training (for audit seniors and above) as well as through discussion at PSA Partners, Directors & Managers group meetings. It is a requirement for all team members to be briefed on the findings, where they are applicable, on 2017/18 audits.</p>

		<p>Additionally, the mandated Technical Update training included targeted training sessions on the audit of PPE valuation and Pension Fund valuation.</p> <p>Where an Engagement Quality Control Reviewer (EQCR) is assigned for an audit, the EQCR has been briefed on the findings of the 2016/17 quality reviews.</p> <p>Where files were scored '0' in 2015/16 or 2017/17 the Engagement Partner has been replaced with either the PSAA Contact Partner or the Head of Public Sector Assurance as the new Engagement Lead. Both the PSAA Contact Partner and Head of PSA are fully briefed on the findings of the prior years' reviews.</p> <p>As outlined above, a targeted training session on PPE valuation audit was included in our mandatory training programme.</p> <p>All of these areas were covered in our mandated Technical Update training.</p>
VFM arrangements conclusions	<p>Ensure that changes to required work as identified in the Audit Plan is communicated to 'Those charged with governance';</p> <p>Clearly evidencing of the dates of work completion and review; and</p>	<p>We have included in our ISA260 reporting template a section to identify significant changes to the audit approach, which prompts teams to record any such changes for appropriate communication to those charged with governance.</p>

	Ensure clearer documentation on file of the judgements reached.	The need to record timely completion and review of work has been included in our briefing sessions to staff on quality matters. We have updated our VFM engagements suite of template documentation which will enhance the clear documentation of judgements reached.
Housing benefit	Ensure clear documentation of audit trails, conclusions and extrapolations.	We will refresh our internal HBCOUNT webinar training materials, completion of which is mandatory for all staff completing or reviewing HBCOUNT work. Completion of the webinar module is monitored and recorded through our learning portal and is available 'on demand' after completion for later reference.
Regulatory compliance	No matters identified.	None