

# **Audit Contract Monitoring Report Data Pack**

**PSAA Board**

**Quarter 1 – June 2020**

# Quarter Highlights

- We continue to monitor delivery of 2018/19 engagements and are providing updates to the NAO. As at 30 June 2020 opinions were outstanding at 56 authorities (11.5%).
- The COVID-19 pandemic is impacting on the delivery of both the 2018/19 and 2019/20 audits years:
  - Supporting audit completion is challenging for authorities who have public health priorities.
  - The pandemic is a non-adjusting Post Balance Sheet Event which requires appropriate disclosure and audit coverage.
- MHCLG is supporting the sector by:
  - enabling audit committees to meet 'other than in person' as was previously required by Regulation; and
  - extending the window for audit completion to November 2020.
- Our first client survey under the new quality monitoring arrangements has been shared with the audit firms and was published on our website in May.

# Quarter Highlights

- The FRC published a thematic review of Audit Quality Indicators ([FRC AQI Report](#))
- The report highlighted as good practice an intervention at a public sector business unit which used forward looking AQIs:  
*‘Due to monitoring the level of budgeted audit hours for which no staff are allocated, one firm identified a lack of staff resources in their public sector business unit. As a result, the firm took the decision to delay the timetable on a number of specific audits so that all audits could be resourced appropriately.’*

# Audit Opinions not delivered

Firm	Total audits	Opinions not delivered			
		31 July 2019	30 Sept 2019	31 March 2020	30 June 2020
BDO	27	13	9	4	4
EY	163	90	70	32	32
GT	181	70	35	16	13
Mazars	85	17	13	2	2
DL	30	18	15	7	5
<b>Total</b>	<b>486</b>	<b>208</b>	<b>142</b>	<b>61</b>	<b>56</b>
Total 2018		65	25	11	9

# Fee variations (LG and NHS)

We monitor the levels of variations to scale fees requested by each firm and report on approved fee variations to each Board meeting. The cumulative position is shown below.

Further fee variations are still being processed in respect of all three years.

Year	Audit scale fee £m	Total net value of fee variation requests approved (£)	% of variation against total scale fee approved
2016/17	59.4	3,422,753	5.76%
2017/18	42.4*	2,677,365	6.31%
2018/19	28.2*	2,405,937	8.53%

\* These figures are just LG.

# Fee variations 2016/17

Since the last report to the Board, PSAA approved requests for variations to 2016/17 totalling £683,073. Of this total £600,000 relates to one fee variation for EY. See slide 10 on Largest Fee Variations.

Firm	Contract % share	2016/17 audit scale fee £m	Total net value of fee variation requests approved (£)	% of variation against each firm's total scale fee	% of total fee variations approved
BDO	6	3.7	184,131	5.0	5.4
EY	28	16.4	1,692,514	10.3	49.5
Grant Thornton	33	19.5	463,225	2.4	13.5
KPMG	28	16.8	1,051,959	6.3	30.7
Mazars	5	3.0	30,925	1.0	0.9
<b>Total</b>	<b>100%</b>	<b>59.4</b>	<b>3,422,753</b>	<b>5.8</b>	<b>100</b>

# Fee variations 2017/18

Since the last report to the Board, PSAA approved requests for variations to 2017/18 totalling £347,087. Of this total £187,000 relates to one fee variation for KPMG. See slide 10 on Largest Fee Variations.

Firm	Contract % share	2017/18 audit scale fee £m	Total net value of fee variation requests approved (£)	% of variation against firms' total scale fee	% of total fee variations approved
BDO	6	2.2	164,296	7.5	6.1
EY	28	12.2	1,073,860	8.8	40.1
Grant Thornton	33	13.9	521,023	3.8	19.5
KPMG	28	11.7	891,155	7.6	33.3
Mazars	5	2.4	27,031	1.1	1.0
<b>Total</b>	<b>100%</b>	<b>42.4</b>	<b>2,677,365</b>	<b>6.3</b>	<b>100</b>

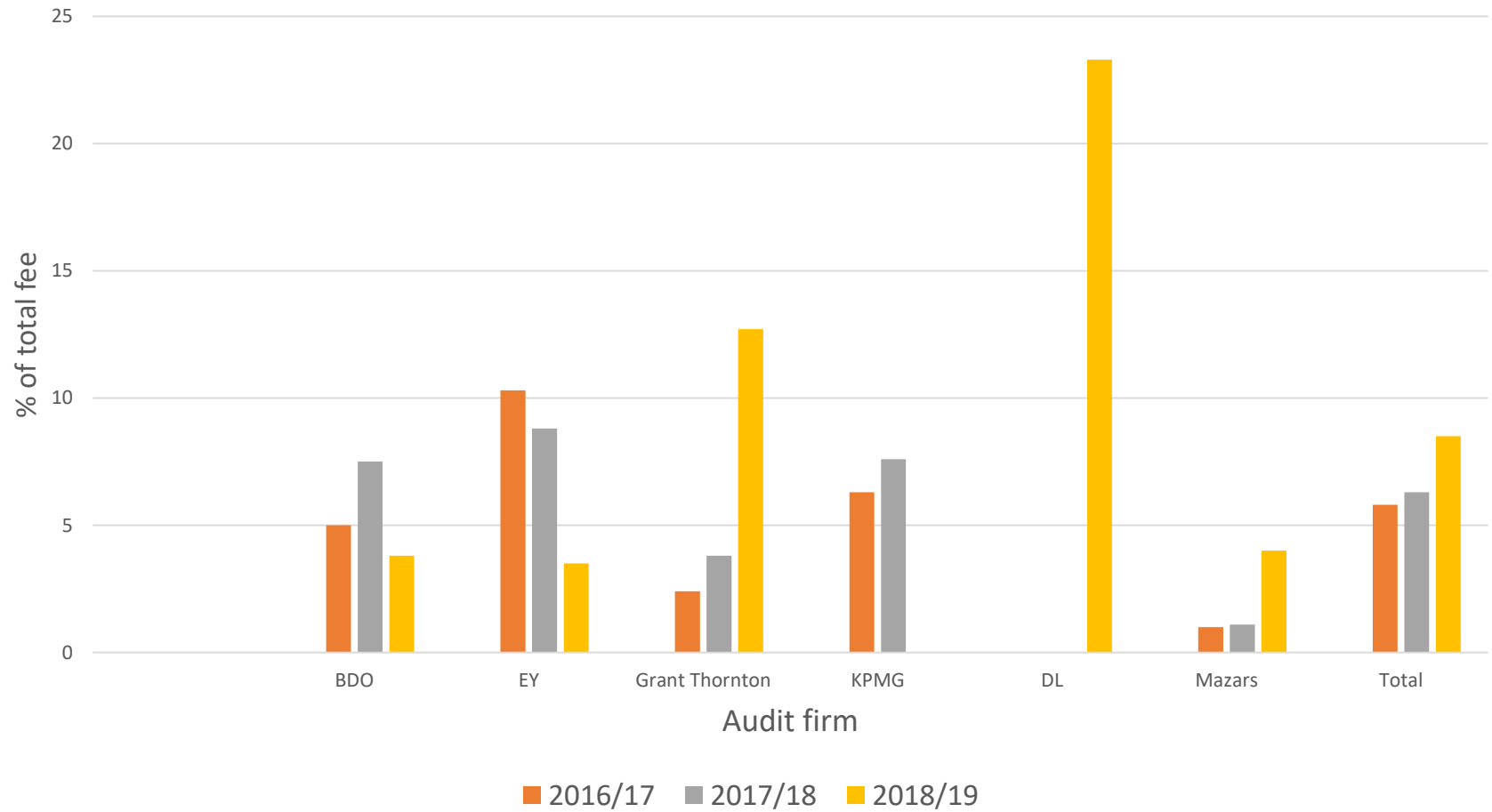
# Fee variations 2018/19

Approved requests for variations for 2018/19 to date.

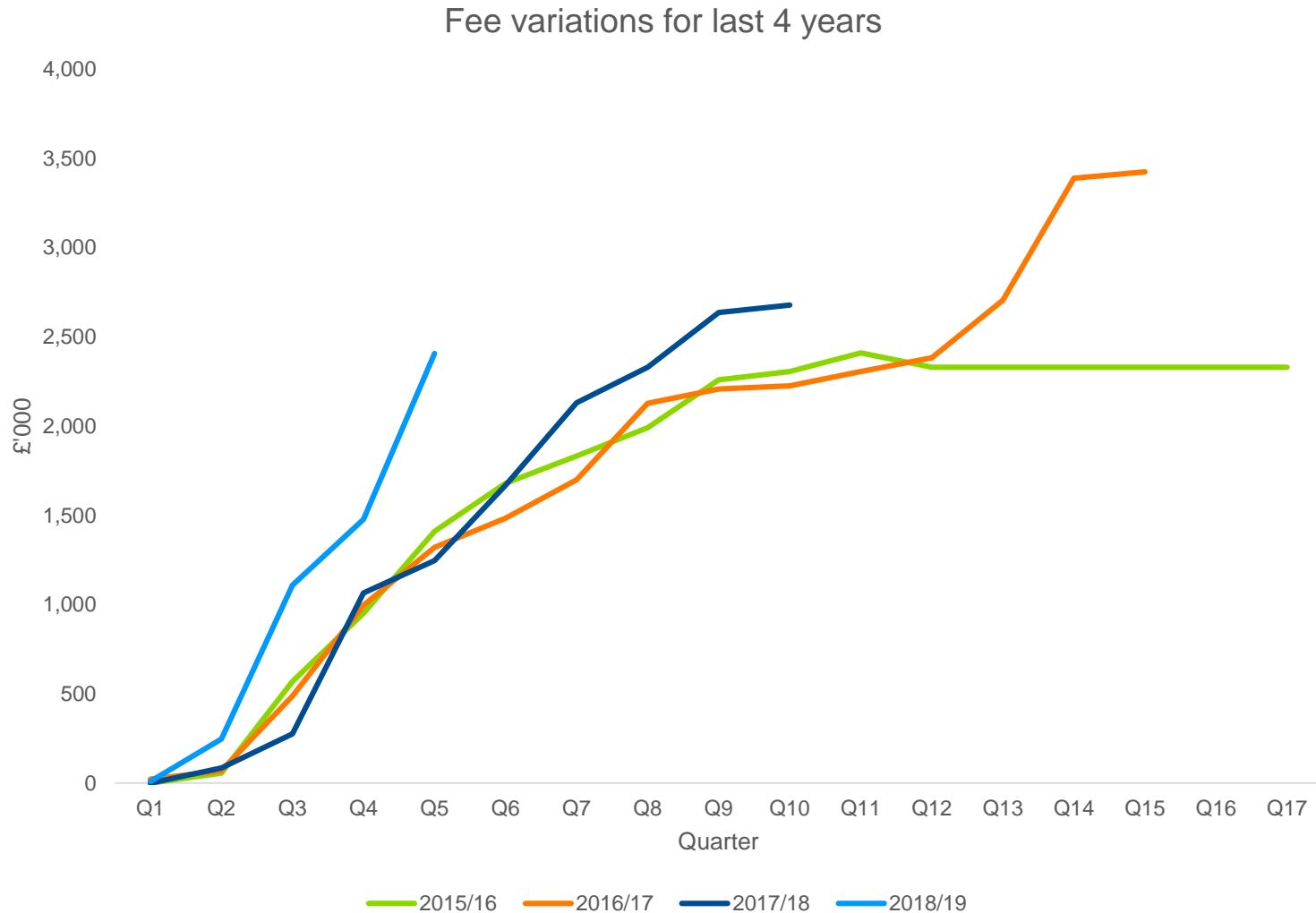
Firm	Contract % share	2018/19 audit scale fee £m	Total net value of fee variation requests approved (£)	% of variation against firms' total scale fee	% of total fee variations approved
BDO	6	1.5	57,134	3.8	2.4
DL	6	1.8	419,468	23.3	17.4
EY	30	8.4	290,041	3.5	12.1
Grant Thornton	40	11.3	1,431,625	12.7	59.5
Mazars	18	5.2	207,669	4.0	8.6
<b>Total</b>	<b>100%</b>	<b>28.2</b>	<b>2,405,937</b>	<b>8.5</b>	<b>100</b>



# Fee variation as % of total fee



# Profile of fee Variations 2015/16 to 2018/19



# Largest Fee Variations – since the last report to Board

Audited Body	Firm	Fee variation £	% of scale fee	Reason for additional work
Reading Borough Council (16/17)	EY	£600,000	551%	<p>Qualified accounts opinion and adverse VFM conclusion. PSAA have reviewed the audit file and discussed with EY. Particular points to note:</p> <ul style="list-style-type: none"> <li>• Unreliable and inaccurate financial and performance information</li> <li>• Eight prior year adjustments</li> <li>• Thirteen sets of financial statements</li> <li>• Audit stopped and started several times</li> </ul>
Northampton-shire County Council (17/18)	KPMG	£187,000	136%	<ul style="list-style-type: none"> <li>• Numerous delays to providing information and responding to queries</li> <li>• High risk nature of the audit resulting in extra work, both general and specific areas</li> <li>• Increased VFM significant risks</li> <li>• Numerous iterations of the financial statements</li> <li>• Going concern consideration</li> </ul>
Royal Borough of Windsor & Maidenhead (18/19)	DL	£55,000	87%	<ul style="list-style-type: none"> <li>• Significant VFM risks, qualified conclusion</li> <li>• Inaccurate and poor quality information</li> <li>• Delays experienced</li> <li>• Instability in the finance function</li> </ul>

# Largest Fee Variations – since the last report to Board

Audited Body	Firm	Fee variation £	% of scale fee	Reason for additional work
London Borough of Ealing (18/19)	DL	£113,000	88%	<p>Various issues relating to financial statements and VFM conclusion:</p> <ul style="list-style-type: none"> <li>• Poor quality draft accounts, working papers and information</li> <li>• Multiple current and prior year adjustments</li> <li>• Audit work for PFI arrangements</li> <li>• Weaknesses in control arrangements</li> <li>• Change in key individuals during the audit</li> </ul>
Staffordshire County Council (18/19)	EY	£77,500	92%	<p>Various issues requiring additional work:</p> <ul style="list-style-type: none"> <li>• IFRS9/15, McCloud</li> <li>• PPE additional work</li> <li>• Increased VFM significant risks</li> <li>• Numerous iterations of the financial statements, level of errors</li> </ul>
Bristol City Council (18/19)	GT	£76,000	48%	<p>Various issues requiring additional work:</p> <ul style="list-style-type: none"> <li>• McCloud, pensions and PPE valuations</li> <li>• Group accounts</li> <li>• British Energy</li> <li>• High level of errors and delays</li> </ul>
Epping Forest (18/19)	DL	£48,000	104%	<p>Due to delays throughout the audit process and significant amount of control deficiencies and errors</p>

# Summary of Objections under Investigation

The total number of objections under investigation has decreased by 1 over the last 6 months (since December 2019). The benefits of timely resolution must be balanced against the need for firms to follow due process and undertake appropriate levels of investigation.

The totals include 3 LOBO and 6 PFI objections.

	> 9 mths		< 9mths	
Firm	2016/17 & prior	2017/18	2018/19	Total
BDO	9	2	-	11
EY	3	-	2	5
GT	4	3	11	18
KPMG	5	-	N/A	5
Mazars	2	2	5	9
DL	N/A	N/A	1	1
Total	22	7	19	49

# Non-audit services requests – 2019/20

Five non-audit service requests requiring consideration were made during 2019/20.

GT's four pieces of work were for supplier contract reviews.

EY's piece of work was for providing assurance by a shared service provider.

Firm	Contract share %	No. of requests approved	Total fee value of requests approved (£)
BDO	6	-	-
Ernst & Young	30	1	56,500
Grant Thornton	40	4	147,050
DL	6	-	-
Mazars	18	-	-
<b>Total</b>	<b>100%</b>	<b>5</b>	<b>203,550</b>

Our role is to consider whether providing the service could potentially compromise the independence of the auditor. The work to be undertaken and the level of the fee is a matter for the audited body and the audit firm.

# Non-audit services requests - comparators

Year	No. of requests approved for non-audit services	Total fee value of requests approved £
2016/17	43	1,871,774
2017/18	20	810,134
2018/19	10	336,773
2019/20	5	203,550

The year on year decline is due to a number of factors including the revision of the Ethical Standard in 2016, clarification of NAO guidance regarding grant certification, and NHS bodies not being relevant to the figures from 2017/18 onwards.

# Other Performance Indicators

As part of our audit quality monitoring arrangements we consider a range of other performance indicators. We have no reportable issues of non-compliance with the Terms of Appointment in this Quarter.