

## NORTH YORKSHIRE COUNTY COUNCIL

### AUDIT COMMITTEE

29 SEPTEMBER 2011

#### AUDIT COMMISSION – QUALITY REVIEW PROGRAMME – ANNUAL REVIEW 2011

##### Report of the Corporate Director – Finance and Central Services

#### 1.0 PURPOSE OF REPORT

- 1.1 To bring the Audit Commission report on their Quality Review Programme report to the attention of the Committee.

#### 2.0 BACKGROUND

- 2.1 The Audit Commission undertakes an annual review of the quality of the work undertaken by their appointed external auditors.
- 2.2 A copy of their latest report is attached.

#### 3.0 RECOMMENDATION

- 3.1 That Members consider the report and note its conclusions.

JOHN MOORE

Corporate Director – Finance and Central Services  
County Hall  
Northallerton

12 September 2011

**John Moore - Quality review programme: Annual report 2011**

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**From:** Audit Commission <a-commission@audit-commission.gov.uk>  
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**Date:** 10/08/2011 11:17  
**Subject:** Quality review programme: Annual report 2011

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Dear Mr Moore

The Audit Commission needs to be able to provide assurance to audited bodies, government and other stakeholders, and the public that the audit work delivered by its appointed auditors is of an appropriate quality. The government has announced that it is disbanding the Commission and is developing new local public audit arrangements. However, until this change happens, the Commission is committed to maintaining a strong focus on the quality of its appointed auditors' work.

You can access our report '[Quality Review Programme: Annual Report 2011](#)', published today, that sets out the results of our review of the quality of work of all our audit suppliers.

When reviewing the work of our audit suppliers, we place reliance on the work of the independent Audit Inspection Unit (AIU), which reviews the firms' systems for ensuring audit quality and a sample of their audits of listed companies. We also commission the AIU to review annually the quality of the financial statements audits carried out by the Commission's in-house audit practice and, on a cyclical basis, the quality of the firms' financial statement audits at a sample of Commission engagements.

We also carry out our own programme of reviews of the non-financial statements aspects of auditors' work, and their compliance with our regulatory requirements. The results of the AIU's and our reviews of 2009/10 audits are summarised in the Quality Review Programme: Annual Report 2011.

Our report concludes that all our audit suppliers are continuing to produce work which complies with the Commission's regulatory requirements and meets professional standards..

If you have any questions about the report, please contact Martin Evans, Managing Director, Audit Policy ([m-evans@audit-commission.gov.uk](mailto:m-evans@audit-commission.gov.uk))

Yours sincerely

Eugene Sullivan  
Chief Executive, Audit Commission

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# Quality review programme

Annual report 2011

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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# Introduction

1 The Audit Commission appoints external auditors, from either its own staff (the Audit Practice) or private firms of auditors,<sup>i</sup> to 900 principal local government, criminal justice and health bodies in England. The Commission also appoints external auditors to some 9,500 parish and town councils and other bodies such as internal drainage boards, referred to in this report as smaller bodies. These bodies are subject to a separate limited assurance audit regime by a mainly different group of audit suppliers.<sup>ii</sup>

2 The Audit Commission Act 1998 sets out appointed auditors' responsibilities. They must carry out their work and exercise their powers under the Commission's statutory Codes of Audit Practice (the Codes).

3 The government intends to abolish the Commission and is developing a new local audit regime. But, until it is disbanded, the Commission is committed to maintaining a strong focus on audit quality.

4 The Commission assesses the quality of the work of its in-house Audit Practice and the firms to which it has let contracts (suppliers). We define audit quality as compliance with professional standards and our regulatory requirements. Our objectives are to:

- provide assurance that the Commission's suppliers have put in place systems and processes to deliver audit work of an appropriate quality; and
- provide information to help us make audit appointments.

5 This report summarises the results of the quality review process for 2011 for our stakeholders, which include audited bodies, government departments, the wider accounting and auditing profession, and other interested parties.

i Deloitte, Grant Thornton, KPMG, PKF and PricewaterhouseCoopers.

ii In addition to the Audit Practice these are BDO, Clement Keys, Mazars and Moore Stephens.

# Background

6 There are two main strands to our monitoring. First, we report quarterly on suppliers' compliance with our regulatory requirements for delivering audits. Secondly, we apply our annual quality review programme (QRP), which assesses the quality of suppliers' work. This briefing summarises the results of our monitoring of 2009/10 audits.

7 In assessing the quality of financial statements audits, we use the work of the Financial Reporting Council's Audit Inspection Unit (AIU). The AIU reviews the firms' systems for ensuring audit quality and a sample of their audits of listed companies. It publishes public reports on each of the firms in our regime, which provide an independent view on the quality of the firms' work. In addition, we commission the AIU to review cyclically the quality of the firms' financial statement audits at a sample of Commission engagements.

8 We also commission the AIU to review the quality of the financial statements audits carried out by the Commission's Audit Practice.

9 We place reliance on suppliers' own quality control and monitoring arrangements including their quality monitoring reviews of:

- financial statements audit work;
- value for money (VFM) conclusions; and
- certification of claims and returns.

## Regulatory requirements

10 We monitor whether auditors comply with our regulatory requirements. These include the target dates for issuing audit opinions on the financial statements and VFM conclusions; issuing assurance reports on the whole of government accounts returns; producing annual audit letters and sending us specified information and returns.

11 Auditors met most of our target dates. Where they did not, the delays were mainly for reasons that were outside the auditor's control.

### Limited assurance audit regime

12 The limited assurance audit regime for smaller bodies is running as intended. All the suppliers have developed internal quality monitoring that is robust enough for us to place reliance on.

13 There was a significant improvement in the timeliness of completing limited assurance audits for 2009/10 by the target date.



## QRP results

14 We are satisfied that the risks of audit failure remain low and suppliers are meeting:

- the Commission's regulatory requirements and standards of performance; and
- the requirements of professional auditing standards.

15 However, there is scope for all suppliers to improve their work by:

- responding to the findings of the AIU's annual inspections; and
- ensuring compliance with our specified methodology for the certification of housing and council tax benefits subsidy claims.

16 The rest of this report summarises the results of our QRP.

### Financial statements audit work

17 Auditors of listed companies have a statutory duty to produce an annual transparency report, giving information about the firm's governance and its arrangements for ensuring the quality of its work. All the firms in our regime are covered by this requirement. The Commission's Audit Practice complies with the requirement voluntarily and publishes an annual quality report.

18 The AIU's public reports on the firms provide an objective reality check on the self-assessments included in the firms' own transparency reports. The AIU's summary report on its inspections in 2009/10 of the work of the big four and 'other significant' audit firms, concluded that 'each firm places considerable emphasis on its overall system of quality control and, in our view, has appropriate policies and procedures in place for its size and its client base. Nevertheless, we have identified certain areas where improvements are required to those procedures'.<sup>i</sup>

19 The results of the AIU reviews that we commissioned on a sample of Commission engagements for 2009/10 confirmed that the financial statement audits complied with:

- auditing standards;
- ethical standards; and
- the quality control standards issued by the Financial Reporting Council's Auditing Practices Board.

i AIU 2009/10 Annual Report, July 2010

20 We reviewed a sample of suppliers' quality monitoring reviews of financial statements audits. We agreed with the suppliers' assessments and conclusions that their work was also meeting the above standards.

## Value for money conclusions

21 Auditors are required by the Codes to give a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness (or VFM, in other words) in its use of resources.

22 For each audit supplier, we reviewed a sample of the quality monitoring reviews of auditors' VFM conclusions.

23 We were satisfied from the results of the reviews that the evidence on audit files was sufficient to support auditors' VFM conclusions.

However, there is scope for:

- clearer recording and cross-referencing of the evidence supporting the auditor's judgements; and
- better evidence to support the scope and depth of the engagement lead's review.

## Certification of claims and returns for grant-paying bodies

24 Government departments, agencies and the European Commission pay billions of pounds of grants and subsidies each year to local authorities. Grant-paying bodies often ask for certification, by a suitably qualified auditor, of the claims and returns sent to them. Certification work is not an audit but a different type of assurance engagement. This involves applying prescribed tests that are designed to give reasonable assurance that claims and returns are fairly stated and agree with specified terms and conditions.

25 We have taken action to improve the quality of certification work. In June 2011, we published our second annual report on certification work *Local government claims and returns*, which set out how local authorities can improve their work on making claims for grants and sending returns to central government. We also continue to discuss certification issues and promote best practice with our suppliers.

26 For each supplier, we reviewed a sample of the quality monitoring reviews of grant claims work to assess whether the auditor had followed our prescribed tests. All suppliers were complying, but there is scope for improving compliance with our methodology for certifying housing and council tax benefits subsidy claims.

## Responses to QRP findings

27 All suppliers have made arrangements to report the QRP findings to a suitable top management group. Action plans are in place to address both organisation-wide and audit team issues. Suppliers' responses to our findings include:

- revising the technical guidance issued to audit teams;
- updating training programmes to cascade lessons learnt to staff;
- allocating more specialist resources to quality monitoring reviews;
- updating audit file templates to more clearly signpost key documentary requirements and evidence trails to support conclusions reached; and
- appointing specialist staff to be champions for improving the quality of work on key aspects of the audit.

28 We will follow up significant recommendations as part of next year's QRP. Also we propose to continue to rely on:

- suppliers' systems for ensuring compliance with our regulatory requirements;
- the results of suppliers' quality monitoring reviews of key elements of the audit; and
- the work of the AIU. We will also discuss how we can help expand the scope of its coverage beyond the financial statements to include auditors' work on VFM conclusions and grant certification.

If you require a copy of this document in an alternative format or in a language other than English, please call: **0844 798 7070**

We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: [nationalstudies@audit-commission.gov.uk](mailto:nationalstudies@audit-commission.gov.uk)

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