

## PSAA audit quality monitoring arrangements

PSAA is committed to ensuring good quality audit services for opted-in bodies. PSAA has adopted the International Auditing and Assurance Standards Board's *Framework for Audit Quality* (IAASB framework) as the model for its appointing person audit quality arrangements. This is widely regarded as a definitive statement on overall audit quality.

The framework makes clear that a quality audit is likely to be achieved by an engagement team that:

- exhibits appropriate values, ethics and attitudes;
- is sufficiently knowledgeable, skilled and experienced and has sufficient time allocated to perform the audit work;
- applies a rigorous audit process and quality control procedures that comply with law, regulation and applicable standards;
- provided useful and timely reports; and
- interacts appropriately with relevant stakeholders.

Audit quality formed a core part of the evaluation of tenderers in the audit procurement, with tenderers encouraged to have regard to the IAASB Framework in their responses to show how they would meet our rigorous quality requirements. Ongoing contract management arrangements have the dual purpose of reporting for opted-in bodies and ensuring that PSAA meets its obligations under the Local Audit (Appointing Person) Regulations 2015, to monitor compliance of auditors against the obligations in the audit contracts.

While responsibility for providing a quality audit rests ultimately with an auditor, audit quality, efficiency and effectiveness are shared responsibilities. They are key concerns for appointed auditors and audit firms; for chief finance officers (CFOs) and audit committees; for regulatory and supervisory bodies; for the Comptroller & Auditor General (C&AG) and the National Audit Office (NAO); and for Government. The IAASB Framework notes that all parts of the financial reporting supply chain have a role in contributing to and encouraging a local audit environment that supports high quality audits for opted-in bodies. PSAA's sponsorship of the Local Audit Quality Forum is intended to support opted-in bodies' role in audit quality and is in direct response to feedback from audited bodies. The forum will allow scope for discussion of common concerns by all stakeholders.

### Principles of our approach

With the IAASB framework as the starting point, PSAA has worked with its Advisory Panel and other key stakeholders to develop this approach to monitoring the quality of audit services provided to opted-in bodies from 2018/19.

We intend that our approach is:

- holistic – includes a range of actions (encouraging, monitoring, reporting);
- engaged – links with all parts of the financial reporting supply chain including audit committees and regulators;
- informed – brings together intelligence from a variety of sources;
- transparent – information is shared openly where possible;
- drives continuous improvement – recognises progress will be made by small gains;
- proportionate – arrangements should not be unduly bureaucratic or place undue burdens on firms; and

- timely – encourages action to be taken when required.

These principles provide the drivers of our approach to monitoring overall audit quality.

### **Monitoring audit quality**

The IAASB framework recognises there is a complex interplay of many factors in audit quality, and notes the need for a rounded approach.

We have taken the attributes that IAASB Framework expects to be present within a quality audit and distilled them into three tests which we will use to consider the quality of audit services provided by auditors under our contracts:

- adherence to professional standards and guidance;
- compliance with contractual requirements; and
- relationship management.

This approach will enable PSAA to meet the statutory requirement to monitor compliance with contractual obligations, and will provide information for all stakeholders on the quality of audits provided under our contracts against IAASB expectations of a quality audit. We have set out below the sources we will use to monitor audit quality for the three tests to provide a rounded view.

The diagram at Annex 1 provides an overview of our approach.

#### ***Adherence to professional standards and guidance***

Information on the firms' adherence to professional standards and guidance will come from the results of professional regulatory reviews completed by the Audit Quality Review Team (AQRT) for the Financial Reporting Council and the Quality Assurance Department (QAD) for the Institute of Chartered Accountants in England and Wales, the principal RSB for local audits in England. The regulators will be reviewing a sample of local audits. PSAA will be informed by but will not be duplicating the work of the regulators.

We will triangulate these results with information on audit quality provided by firms in their transparency reports and from their own internal quality monitoring reviews (iQMRs)

#### ***Compliance with contractual requirements***

Information on a firm's compliance with contractual requirements will come from:

- **An assessment against a suite of performance indicators.** We will report publicly on firms' performance against targets of particular interest to opted-in bodies. This will include information on delivery of audit opinions and other outputs in a timely manner, to facilitate publication of annual accounts. We will distinguish between those items which are indicative of audit quality and the work of the firm (for example non-compliance with PSAA Terms of Appointment) and those which relate to the local authority financial reporting supply chain as a whole (for example issue of opinion on financial statements by statutory publishing date).
- **An assessment of a firm's compliance with its agreed method statement.** The method statement is taken from the firm's ITT response and incorporated in the contract, and includes inter alia continuing professional development of staff, quality assurance arrangements, and achievement of social value commitments. Firms will self-certify their compliance. We intend to rely on a firm's internal control procedures for providing this information. This will be subject to PSAA verification testing and triangulated with audit quality information from other sources e.g. surveys of audited bodies.

## ***Relationship Management***

Information on a firm's relationship management will come from satisfaction surveys. Surveys will be sent at appropriate times to representatives of both management (for example the Director of Finance) and those charged with governance (for example the Audit Committee Chair) for each opted-in body. Any complaints made will also be assessed in considering overall relationship management.

## **Reporting on audit quality**

Based on these monitoring arrangements, PSAA will report on the three tests (professional standards, contractual requirements and relationship management) and on overall audit quality to stakeholders.

PSAA will meet with firms' contact partners to discuss audit quality. We will produce quarterly monitoring reports for discussion with each firm, together with an annual report. A summary report on the regime as a whole will also be prepared.

All reports will all be published on our website. Our annual reports are provided to audit firms' quality and assurance partners.

## **Taking action on audit quality concerns**

PSAA has contracted with firms on the basis that quality audit services will be provided to audited bodies.

Where PSAA's audit quality monitoring arrangements identify that an audit may not have reached the required standards (for example failure to meet contractual requirements, or poor feedback from audited bodies) firms will have the opportunity to rectify the situation. In the first instance, PSAA will meet with the contact partner for the relevant firm to discuss:

- the reason for any quality concerns;
- the action being taken by the firm to address the matter; and
- the expected timetable for improvement.

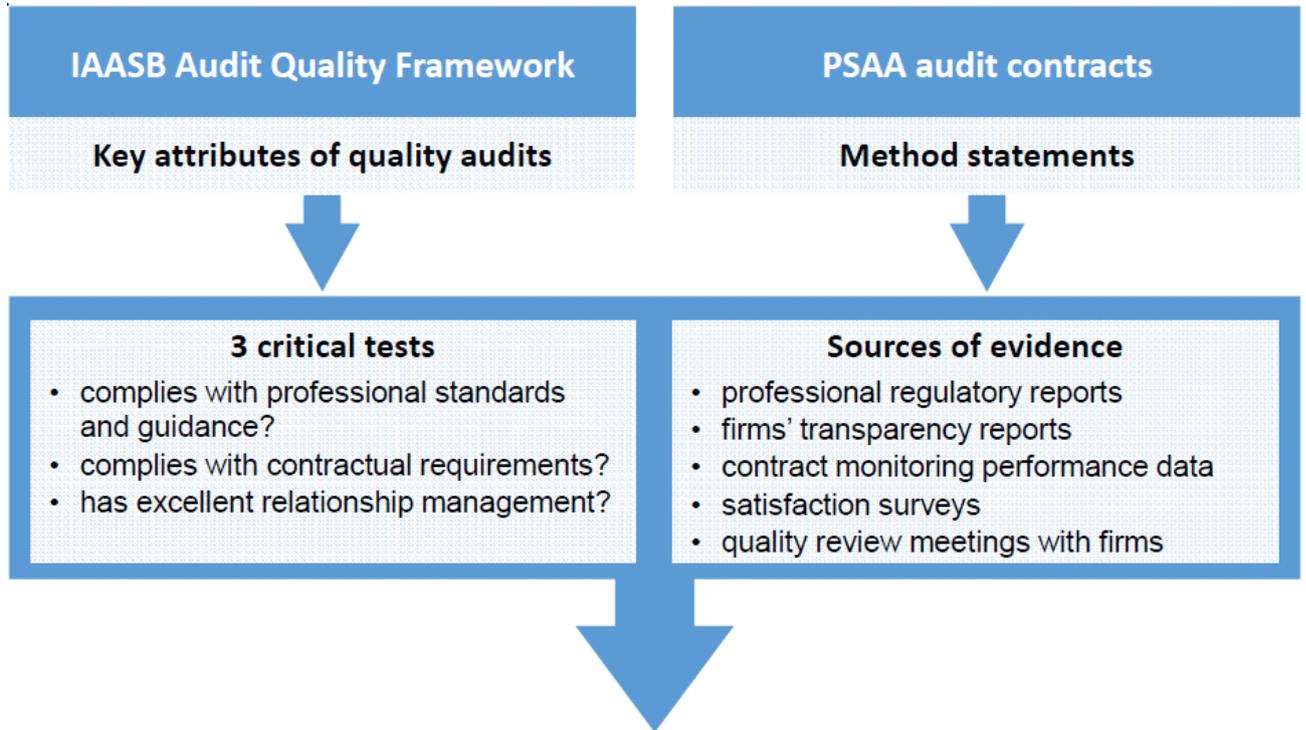
We would expect that, recognising their professional registration requirements, firms will take action to address problems as they are identified. Failure to do so could lead to loss of accreditation from the regulatory bodies. Concerns identified by professional regulators will be managed within that framework.

Where a firm fails to take action, or that action is inconsequential, we would raise the matter with the firm's audit quality partner or equivalent for the firm as a whole. Ultimately, PSAA's appointing person contracts provide that firms must comply with our monitoring arrangements. The contracts provide for termination where there is a material breach or persistent failure. Consistently providing poor quality audits would be viewed as persistent failure.

## **Reviewing PSAA's approach to audit quality**

We propose that the approach to audit quality be reviewed in the spring of 2020. This will be after the first round of reporting on audits completed under the Appointing Person contracts.

**Appendix 1, Annex A: Audit quality approach diagram**



Evidence-based outputs	Firm focus	System wide focus
Quarterly report against a scorecard of KPIs	✓	✓
Quarterly report and latest insights into audit quality		
• Regulatory reports	✓	
• Transparency reports	✓	
• Satisfaction surveys	✓	✓
Annual summary report	✓	✓

