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Feedback: Public sector monitoring review - 2024

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Welcome to this short presentation on ICAEW's quality assurance findings from across all our government and public services monitoring activity. This monitoring review focuses on financial audits and other opinions we reviewed in 2024.

Summary

- The reviews assessed 24 audits, 4 Value for Money (VfM) conclusions, and 5 performance reports signed off in the 2023 calendar year.
- ICAEW's quality assurance reviewers found:
 - 16 audits were either good or generally acceptable
 - 8 audits require improvement or significant improvement
 - Other audit work continue to be of a good standard with all reviews being good or generally acceptable.
- ICAEW continues to identify and share examples of good practice.

The ICAEW is the recognised supervisory body for local audit in England and currently has 10 firms and just over 100 key audit partners registered under the Local Audit and Accountability Act 2014. In addition to our work reviewing the quality of non-major local public audits, the ICAEW's Quality Assurance Department works with several other audit agencies, assisting them in monitoring the quality of their public sector audit work.

During this presentation will draw out some of the good practice and areas for improvement we identified from our monitoring activity, which are

key reminders for auditors as they progress through the 2024/25 reporting season.

Our 2024 monitoring reviews focused on audits signed during 2023 calendar year. In line with the previous monitoring round, our selection of audit files for local government in England continued to be affected by the challenges facing the sector and the delays in publishing audited financial statements. As this has significantly reduced the number of audits available to review under the Local Audit and Accounting Act:

- * we have not sought to draw any direct comparison with the results of reviews of audit files in previous years; and
- * we have combined our findings from across all our public sector monitoring activity, which is consistent with the basis we reported on last year.

In summary:

- * 16 audits were either good or generally acceptable
- * 6 audits required improvement and 2 required significant improvement
- * Value for Money continues to be of a good standard with all reviews being good or generally acceptable
- * Performance reports continue to be of a good standard with all reviews being good or

generally acceptable

For the audits requiring improvement or significant improvement, the factors driving these grades can vary quite widely. It should be remembered that as ICAEW we only monitor a small proportion of each firm or agencies portfolio, on that basis there will always be some variation year on year.

The overall picture of audit quality for financial statement audits is broadly consistent with the results of our corporate audit monitoring reviews set out in ICAEW's most recent Audit Monitoring Report published in May 2025.



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Summary of key findings

Financial statement disclosures and audit of the cash flow statement

- Financial statement disclosure continues to be of a generally good standard.
- The audit of cash flow statements and the classification of transactions continues to be an area where there is a risk of material misstatement.

Financial statement disclosures, including the independent auditors' report, continue to be of a generally good standard with 20 of 24 audits having nothing more than minor disclosure improvements identified.

Of the remaining four audits, specific matters were identified on one audit as their insufficient disclosure in the accounting policies and key accounting judgements in relation to accounting treatments affecting the cash flow statement. On another audit, material inconsistencies in relation to cash and cash equivalents were identified in this

primary statement between current and prior year. Our monitoring activity in the last few years has identified a limited number of instances where there are errors or transactions have been incorrectly categorised in the cash flow statement. Audit files should therefore show how the engagement teams have responded to this risk of material misstatement and are robustly challenging the nature, value and classification of transactions in this primary statement

On another audit, a material misstatement was identified within the financial instruments note. In this instance employer benefit plans were included as a basic financial instrument, when the accounting framework applied specifically excludes these balances. In general, financial instruments are a detailed and complex disclosure area. Care should be taken by audit teams to review and challenge whether disclosure made by management comply with the requirements of the applicable accounting framework.

On the remaining audit, the audit report did not include appropriate wording in relation to going concern.

Risk assessment

- ISA 315 (revised) implemented for period commencing on/after 15 December 2021.
- Significant changes to audit systems and/or methodologies were observed.
- Numerous examples of good practice were observed.
- A clearer assessment of inherent risk was required in several cases.
- In a limited number of instances, the risk assessment did not adequately direct the audit.

ISA 315 (revised) was effective for periods beginning on/after 15 December 2021. For the public sector, 2022/23 was the first monitoring round under this revised auditing standard. As a result of this revised auditing standard, updated audit systems and/or methodologies were observed.

Where good practice was identified risk assessments were:

- * clear and well documented, demonstrating a clear follow through of issues raised by IT auditors, prior year misstatements and control observations;
- * clear link between risk of material misstatement

- and planned procedures;
- * planned procedures were clearly laid out and easy to follow for complex and unusual account balances; and
- * clear assessment of accounting estimates as part of the risk assessment.

The impact of risk assessment on the outcome of an individual audit can vary widely depending on whether the impact is discrete or pervasive. In this monitoring round, two audit files required significant improvement, as issues with implementation of ISA 315 (revised) meant that the risk assessment did not adequately directing testing leading significant gaps in audit evidence. We assessed that these gaps had a pervasive impact on these audits as insufficient substantive testing had been planned and performed, this included no testing being planned and performed on certain assertions that QAD concluded to be 'relevant assertions'. For one of these audits, there was also insufficient consideration of the impact of a cyber security incident and its potential impact on the general IT environment.

In other instances, the risk assessment did not adequately assess:

- * the level of inherent risk of specific account balances such as property, plant and equipment;
- * the impact of complex IT systems or assess key IT applications; and

- * Insufficient evaluation of the information cycle between the entity and services organisations.

While this led to insufficient evidence being obtained for these specific account balances, the impact was not pervasive to the audit. As a consequence these audits were concluded to be generally acceptable.

Estimates and judgements

- For public sector bodies, a range of accounting estimates are observed in relation to valuation of property, plant and equipment (PPE), pension scheme liabilities, and provisions.
- Examples of good testing of estimates and judgements.
- Improvements were identified in some areas:
 - insufficient testing of data used by management in developing models; and
 - insufficient identification and challenge of historic management judgement and assumptions.

Across the public sector we are continuing to see a range of complex provisions and other accounting estimates. The valuation of property, plant and equipment and pension scheme liabilities are also key estimates. We will consider these further on the next slide as management experts are typically involved in calculating these balances and auditor experts are sometimes used to assist audit teams gaining sufficient audit evidence in these areas of estimation.

Accounting estimates are subject to, or affected by, risk factors that influence the likelihood and magnitude of potential misstatements. These factors include:

- estimation uncertainty,
- subjectivity, and
- * complexity.

In this monitoring round we observed instances of good testing of data underpinning models and estimates such as gross internal area of building and land sizes given to valuers. We also observed examples of well documented and designed testing of property, plant and equipment valuations that demonstrated appropriate challenge of the valuer's assumptions.

Information produced by the entity and used by management to develop its models are key inputs to an estimate. On one audit file relating to an estimate other than PPE and pensions we identified that while the audit team had substantively tested the mechanical aspects of the model, insufficient evidence/documentation was included on the audit file as to how the auditor had assessed the reliability of the data that management had used in their model.

Improvements were also required concerning the evaluation of historic judgement and other key assumption made by management in calculating a year end provision for unbilled expenditure on work performed to the reporting date. In this instance, the audit team were undertaking a first-year audit. In preparing the provision, management applied a cap to exclude certain longstanding items. There was

insufficient evidence of the audit team's challenge the reasonableness of the applied cap, no consideration was documented on the audit file of the audit team attempting to quantify the impact of the excluded population, and whether the impact of excluding these items could be material to the financial statements. For another element of this provision, outdated data had been used to calculate the liability. It was not clear from the working papers how the audit team had considered this.

Use of experts

- Management and auditor experts may be used in a number of areas of the financial statements.
- For public sector bodies, the valuation of property, plant and equipment, and pension scheme liabilities are complex estimates where experts are typically used.
- Generally good use of auditor experts and benchmarking to challenge management experts.
- Improvements were identified in some areas:
 - insufficient testing of data provided by the audited entity to the management expert;
 - insufficient consideration of the appropriateness of indices;
 - insufficient review and challenge of key assumptions;
 - lack of follow up on matters raised by experts for consideration by the audit team; and
 - lack of evaluation of other financial statement line items where management experts are used.

As noted last year, property is usually one of the largest assets on the balance sheet of public bodies. Assets such as schools, hospitals, and council dwellings have inherent complexity in the valuation techniques that are applied. Similarly, the valuation of actuarial liabilities are a complex management estimate that require an assessment of the financial and demographic assumptions, employer specific assumptions, and an understanding of the actuarial techniques used to roll forward the valuation.

Our monitoring reviews show that in most cases auditors continue to make good use of auditor experts

and central assurances to understand the methodology used by valuers and actuaries. Good use was also made of benchmarking and auditor experts, either internal or external, to review and challenge assumptions. As noted on the previous slide we also observed some instances of good testing of data given to valuers and actuaries.

Areas of improvement are broadly consistent with the prior year and include:

1) Data: the accuracy and completeness of data provided by the audited entity to both valuers and actuaries are key inputs of the estimate. Gaps in audit evidence were identified on a number of audit files relating to:

- * insufficient testing performed on data provided to valuer in relation to gross internal area of buildings and size of land
- * insufficient testing of data provided to the actuary including membership data, contributions received by pension scheme, benefit paid to members, testing of valuation of investment assets, and insufficient work to assesses share of assets and liabilities allocated to the audited entity.

2) Use of indices: appropriateness of using indices where they had been a significant change in use of the property during the year,

3) Assumptions: insufficient work was planned and performed as a result of a management expert being used, insufficient testing of key assumption made by the management expert including those relating to modern

equivalent asset values, and/or insufficient consideration of contradictory information.

4) Caveats and matters for the audit team: when using reports prepared by a management expert these document may include caveats or assumptions that state the valuer/actuary has relied on accuracy of information provided by management. These caveats and assumptions may not be specifically addressed by the auditor expert, and will need to be considered by the audit team. Similarly, whilst reports produced by auditor experts may comments on the general reasonable of assumptions or approach adopted by a particular firm of experts, these often include matters raised by the auditor expert for consideration by the audit team, in some cases it was unclear how these had been addressed by audit teams.

5) Other management experts: management expert used in other areas such as heritage assets, provisions etc. Experts in these areas need to be evaluated to assess competence, objectivity and independence and the relevance and reasonableness of the assumptions should be assessed. In line with last year, gaps in audit evidence were identified in relation to challenge of these other management experts.

Property, plant and equipment

- Public sector bodies hold significant amounts of property, plant and equipment.
- Improvements were identified in some areas:
 - existence of brought forward assets;
 - indicator of impairments;
 - insufficient consideration of indices and valuations at a date other than year end;
 - insufficient consideration of the carrying value of assets not revalued in year; and
 - insufficient testing of revaluation accounting entries.

As previously mentioned, property is usually one of the largest assets on the balance sheet of public bodies. Public bodies hold these assets to deliver services as well as for their own purposes.

We have already covered some of the good practice we have observed on the previous two slides.

Areas of improvement were identified in relation to:

- * Brought forward assets – insufficient evidence was obtained on confirming the ongoing existence of high value and highly portable assets brought forward. These related to both property, plant and

- equipment and heritage assets;
- * insufficient consideration of whether assets were impaired as a result of either change in use, or indices indicating that values had reduced since the last formal revaluation;
 - * use of indices: to facilitate faster close indices or valuation at a date other than the year end may have been used to prepare the valuation. Insufficient consideration was documented on audit files to assess whether changes indices between the valuation date and year end, may lead to the valuation being materially misstated;
 - * assets valued on a rolling cycle: gaps in audit evidence were identified for asset not in cycle for revaluation, as no or insufficient consideration was made of whether the fair value of these assets would be materially different to the carrying value at the reporting date; and
 - * revaluation accounting entries: gaps in audit evidence from insufficient or no testing performed on revaluation accounting entries.

Group audit

- We are continuing to see a significant level of group audit arrangements across government and public services.
- Auditors are making good use of standard templates to record their ISA 600 considerations.
- Improvements were identified in some areas:
 - insufficient information recorded on group audit file;
 - direction and supervision; and
 - reporting to those charged with governance on a group basis.

As noted last year, across government and public services we are continuing to see a significant level of group audit arrangements as audited bodies work more collaboratively, services are transferred to subsidiary companies to obtain certain tax advantages, commercialisation in local government, and in some territories the alignment of financial reporting boundaries with budgeting and funding boundaries. Significant components of a group may generate material levels of income, incur material amounts of expenditure in the delivery of public services, or account for a significant amount of assets or liabilities.

Where auditors are documenting their group audit consideration well, we observed that good use was being made of standard templates and guidance material to record their understanding of the group and record their scoping decisions.

Areas of improvement included:

- * group audit file: on one audit we reviewed, where the group audit team completed work on the group and all significant components. Insufficient information was recorded on the group audit file in relation to certain planning, testing and completion activities. While sufficient evidence may have been available to the group audit team from procedures recorded the audit files of other group entities, the group audit file did not stand alone;
- * direction and supervision: component materiality was not communicated to the component auditor on one audit. The group audit team did not review work papers of the component auditor audit in relation to significant risks identified at the group and component and level;
- * reporting to those charged with governance: reliance was placed on planning and reporting to those charged with governance at the component bodies. As those charged with governance for group and components were different people, there was insufficient reporting at both planning and completion of the work performed on significant components to address group risks.

Audit evidence

Other findings across the files were identified in relation to:

- substantive analytical procedures;
- sampling;
- responding to the risk of fraud arising from management override of controls;
- income testing; and
- going concern

Other findings from our reviews are similar to matters identified in previous years and are relevant to almost every audit.

Substantive analytical procedures and data analytics can provide high quality audit evidence and valuable insights into the key factors that underlie the entity's performance. As part of our monitoring reviews we identified effective use was being made of substantive analytical reviews to gain assurance over certain categories of expenditure. Where substantive analytical procedures can be improved, this generally related to verifying the underlying data used to develop the

expectation. Other improvements related to insufficient consideration of other relevant changes during the period such as the impact of industrial action in the NHS, and performing analytical procedures at an appropriate level of disaggregation. On one audit we reviewed substantive analytical procedures had been used to test certain income streams. These income streams were not sufficiently disaggregated, and therefore the analytical procedures were not entirely effective as it did not adequately reflect all the different variables that were affecting constituent income elements.

Audit sampling continues to be an area where gaps in evidence are identified. Issues were noted in relation to deduction being made for material items and then not testing these items and insufficient justification of items selected for testing. Issues were also noted in relation to insufficient or no testing being performed on material residual populations. In these instances, the ways in which sample were selected for testing there was no opportunity for these items to be selected for testing.

The testing of journals is a key audit procedure to address the risk of fraud due to management override. From the audit files we reviewed there were weaknesses in process to identify journal with characteristics of audit interest, insufficient rationale to explain journals selected or excluded from testing, and in some instances no testing being performed on

journals that had been identified as having characteristics of audit interest.

Gaps in evidence in relation to income were identified in relation to a range of assertions, and in particular weaknesses were observed in a number of instances in the work performed over the accuracy and completeness assertions. Issues were also noted appropriateness of accounting policies, insufficient understanding of how entity earns income leading to gaps in audit evidence, circular testing and sufficiency of audit documentation to support the use of data analytics.

On a few audits, insufficient work had been performed to assess the appropriateness of the going concern assumption and the ability of these audited bodies to continue for at least 12 months from the approval of the accounts.

Good practice examples

- Clear, well thought out and well documented testing plans and audit work
- Use of data analytics
- Use of benchmarking
- Clear and effective testing of related party transactions, laws and regulation and concluding analytical reviews.

Examples of good practice were identified on most files we reviewed. In addition to the good practice we have also discussed in relation risk assessment, estimates and judgements, use of experts and group audits we also identified the following:

- * audit works papers across the files being clear, well documented, with clear testing plans for complex or unusual balances;
- * clear linkage between issues identified and subsequent follow up;
- * effective use was made of data analytics. Data analytics were regularly used to support journals testing, however examples were also seen of

analytics being used to reconcile the trial balance to draft financial statements;

- * good use of benchmarking information;
- * good testing of related party transactions and laws and regulations, and
- * good quality concluding analytical reviews that show a clear understanding of the entity and its results.



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Useful ICAEW resources

Useful ICAEW resources



- Insight from audit monitoring webinars: [icaew.com/auditresources](https://www.icaew.com/auditresources)
 - Accounting estimates, valuations, impairments, and the use of experts
 - Group audits
 - Involvement of the RI, impact of new/revised audit systems and methodology
- ICAEW training films: [icaew.com/films](https://www.icaew.com/films)
- Helpsheets – [icaew.com/helpsheets](https://www.icaew.com/helpsheets)
- UK public sector audit hub: [icaew.com/localaudit](https://www.icaew.com/localaudit)

In May 2025 we released our latest training video 'Crossing the line'. Several of the themes and learning point explored by the film are relevant to all audits.



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