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Item 21/05 Appendix B

DORSET & WILTSHIRE
FIRE AND RESCUE

Dorset & Wiltshire Fire and Rescue Authority

Planning report to the Finance and Audit Committee on the 2020-21 audit – 03 March 2021

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Planning report

Introduction
The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our planning report to the Finance and Audit Committee (the Committee) for the 2021 audit of Dorset & Wiltshire Fire and Rescue Authority (the Authority). We would like to draw your attention to the key messages of this paper:

Audit Plan	• We are developing our understanding of the Authority through discussion with management and review of relevant documentation from across the Authority. • Based on these procedures, we have developed this plan in collaboration with the Authority to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Authority.
Key risks	• We have taken an initial view as to the significant audit risks the Authority faces. These are presented as a summary dashboard on page 12. These risks are based on our risk assessment procedures, incorporating the impact of issues identified in the prior year audit.
Regulatory change	• Our audit is carried out under the Code of Audit Practice issued by the National Audit Office (NAO). • Please refer to changes in Value for Money requirements in page 16. • We will update Management and the Committee with sector and technical updates as they arise.

Responsibilities of the Finance and Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Finance and Audit Committee?

As a result of regulatory change in recent years, the role of the Committee has significantly expanded. We set out here a summary of the core areas of Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Finance and Audit Committee in fulfilling its remit.

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the Authority, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate Authority risk committee).
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your Authority and your strategy

Identify changes in your Authority and environment.
We have spent time with management understanding the current year matters and prepared our risk assessment for the audit, we will continue to keep this under review throughout the audit process.

Scoping
We anticipate our scope to be in line with the Code of Audit Practice issued by the NAO.

In our final report
In our final report to you we will conclude on the significant audit risks identified in this paper and report to you our other findings.

Determine materiality
We have determined a materiality of £1.26m (FY20: £1.34m). This is based on 2% of Total expenditure per the 2020/21 outturn forecast (Financial Monitoring Report Q2). We will report to you any misstatements above £63k (FY20: £67K). We will report to you misstatements below this threshold if we consider them to be material by nature. For further detail on materiality, see page 10.

Significant risk assessment
We will identify significant audit risks in relation to the Authority and plan our audit response to meet these risks (Page 12 onwards).

Quality and Independence
We confirm all Deloitte network firms are independent of the Authority. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of work and approach

We have three key areas of responsibility under the Audit Code of Practice

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the NAO. The Authority will prepare its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

We are also required to issue a separate assurance report to the NAO on the Authority's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental accounts.

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we will review the annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Authority.

Value for Money conclusion

We are required to consider the arrangements that the Authority has made securing financial resilience and economy, efficiency and effectiveness in its use of resources, if we identify any significant weaknesses to make recommendations, and to provide a narrative commentary on arrangements.

To perform this work, we are required to:

- Obtain an understanding of the Authority's arrangements sufficient to support our risk assessment and commentary;
- Assess whether there are risks of a significant weakness in the Authority's arrangements, and perform additional procedures if a risk is identified. If a significant weakness is identified, we report this and an accompanying recommendation;
- Report in our audit opinion if we have reported any significant weaknesses.
- Issue a narrative commentary in our Annual Auditor's Report on the arrangements in place.

This represents a significant increase on scope on previous years.

The NAO and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements. We will agree the fee change for this work with management once requirements are finalised.

Please refer to page 16 for the changes made to VFM reporting for FY21.

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them where required to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Authority's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

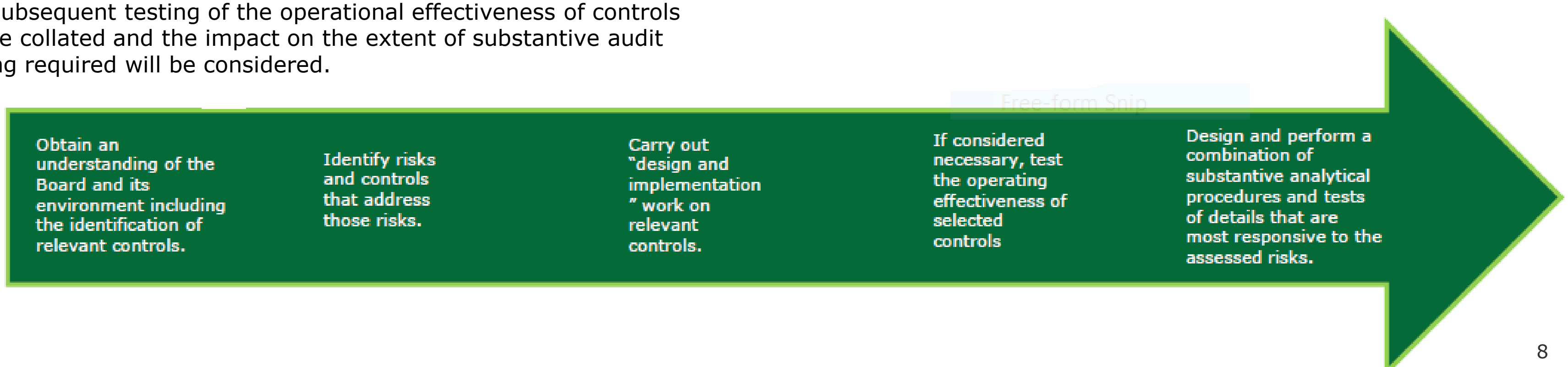
We recommend the Authority complete the Code checklist during drafting of their financial statements.

We would like the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

Value for Money and other reporting

The Code of Audit Practice requires us to report by exception in our audit report any matters that we identify that indicate the Authority has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

In addition, under the new VFM requirements we are required to issue an Annual Audit Report setting out the governance arrangements in place in relation to VFM. More details of the changes to VFM are set out on page 16.



Continuous communication and reporting

Planned timing of the audit

Planning	Interim audit	Year end fieldwork	Reporting
• Planning meetings to inform risk assessment and identify judgemental accounting issues. • Update understanding of key business cycles and changes to financial reporting. • Review of key Authority documents including Authority and Finance and Audit Committee minutes. • Review of internal audit reports completed so far.	• Review of Authority quarter 3 performance / events. • Substantive testing of Journals and fixed assets. • Update on value for money responsibilities. • Review of Authority accounting policies. • Review of internal audit reports completed so far. • Document design and implementation of key controls.	• Review of Authority quarter 4 performance / events. • Substantive testing of all areas. • Finalisation of work in support of value for money responsibilities. • Detailed review of annual accounts and report, including Annual Governance Statement. • Review of final internal audit reports and opinion. • Completion of testing on significant audit risks.	• Final Finance and Audit Committee meeting. • Issue final Finance and Audit Committee paper. • Issue audit report. • Issue Annual Audit Letter. • Audit feedback meeting.
2020/21 Audit Plan	Interim report to the Committee	Final report to the Committee	
December 2020- February 2021	**February – March 2021**	**June 2021**	**July- August 2021**

Ongoing communication and feedback

Materiality

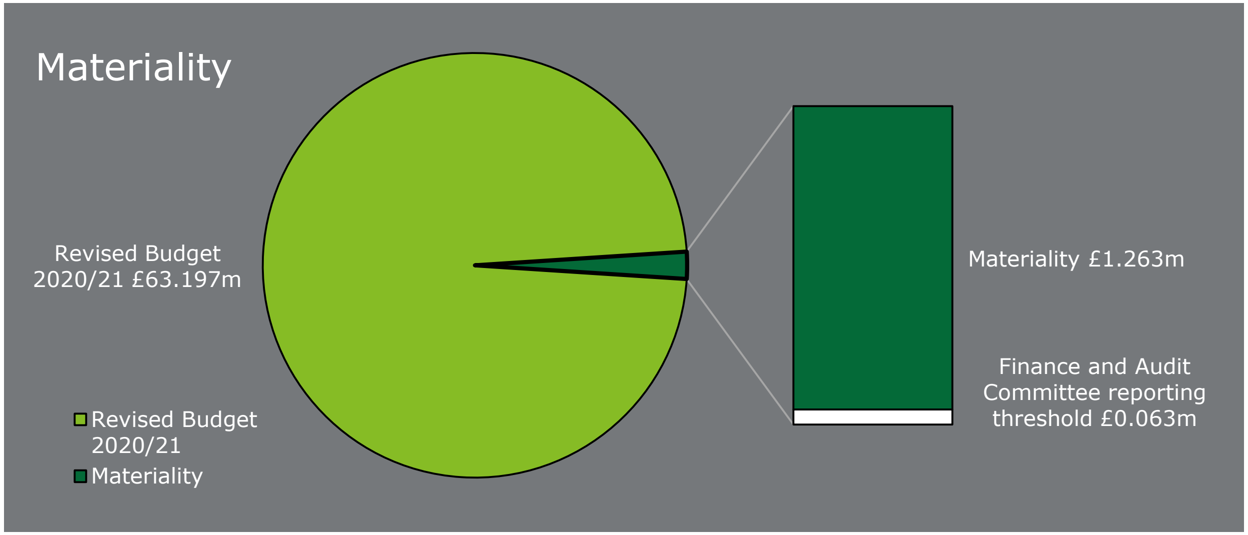
Our approach to materiality

Basis of our materiality benchmark

- The audit lead has determined materiality as £1.26m (FY20: £1.34m), based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of Total Gross Expenditure based on the 2020/21 year end outturn forecast (Financial Monitoring Report Q2) as the benchmark for determining materiality.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £63k (FY20: £67k).
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the audit lead, the Finance and Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality;
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements; and
- the Authorities' actual and planned performance on financial and other metrics.

Principal risk and uncertainties

- Economic uncertainty and future levels of funding
- Impact of COVID-19

IAS 1 Critical accounting estimates

- Pension liabilities
- Useful lives and valuation of property assets

Audit, Governance and Ethics Committee reports:

- Management Override of Controls
- Completeness of creditors and accruals
- Pension liabilities
- Value for Money

Significant audit risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Level of management judgement	Expected to be included in the Committee's report	Expected to be a key audit matter in our audit report	Slide no
Completeness of accruals & creditors	✓	DI	⚠	✓	✓	13
Management Override of Controls	✗	DI	⚠	✓	✓	14
Pension Liabilities	✗	DI	⚠	✓	✓	15

D+I: Assessing the design and implementation of key controls

Low Level of Judgement ⚠

Medium Level of Judgement ⚠

High Level of Judgement ⚠

Controls approach adopted

DI Assess design & implementation

Significant audit risks
Risk 1 – Completeness of accruals & creditors

Risk identified	Under UK auditing standards, there is a mandatory presumed risk of revenue recognition due to fraud. We are able to rebut this risk in relation to the Authority, however by doing so we are required to identify an alternative fraud risk. In a local authority context, there is a risk of material misstatement due to error or fraud has been identified in relation to the completeness of accruals and creditors. Specifically, there is a risk that the Authority may materially misstate its expenditure through the understatement of creditors and accruals in an attempt to report a more favourable year end position.
Our response	Our work in this area will include the following: We will obtain an understanding of the design and implementation of the key controls in place around completeness accruals & creditors; We will perform focused testing in relation to the completeness of creditors and accruals through testing payments made post year end and invoices recognised post year end.

Significant audit risks

Risk 2 – Management override of controls

Risk identified	In accordance with ISA 240 (UK) management override is a mandated significant risk on all audit engagements. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions. The key judgements in the financial statements are those which include pension liability valuation and property valuations. In addition. these are inherently the areas in which management has the potential to use their judgment to influence the financial statements.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: • We will test the design and implementation of key controls in place around journal entries and management estimates including pension valuations and property valuations; • We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest; • We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting; • We will review accounting estimates for biases that could result in material misstatements due to fraud; and • We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Authority, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Significant audit risks
Risk 3 - Pension liabilities

Risk identified	The net pension liability is a material element of the Authority's balance sheet. The Authority is an admitted body of the Wiltshire Pension Fund and the Dorset & Wiltshire Fire and Rescue Service Firefighters Pension Scheme. The valuation of the Schemes relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. Furthermore there are financial and demographic assumptions used in the calculation of the Authority's valuation – e.g the discount rate, inflation rates, mortality rates. These assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. In addition, the McCloud and Goodwin judgement is continuing to evolve and the impact on the pension liabilities need to be continually accessed. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to the net pension liability accounted for in the financial statements.
Our response	• We will obtain an understanding of the design and implementation of the key controls in place in relation to data passed to the actuary and review of the assumptions by the Authority; • We will evaluate the competency, objectivity and independence of Barnett Waddingham and Hymans Robertson LLP, the actuarial specialist; • We will review the methodology and appropriateness of the assumptions used in the valuations, utilising a Deloitte Actuary to provide specialist assessment of the variables used; and • We will review the pension related disclosures in the financial accounts.

Revised Value for Money audit requirements

The National Audit Office has revised AGN03 reflecting the new Code of Audit Practice applicable for 2020/21 audits onwards

Issue

In January 2020 the National Audit Office issued the new Code of Audit Practice for 2020/21 onwards. The Code is applicable to NHS Trusts and Foundation Trusts, CCGs, and Local Authorities. This introduced significant changes to the requirements around Value for Money (the arrangements to secure economy, efficiency, and effectiveness in the use of resources).

On 15 October, the National Audit Office published Auditor Guidance Note 03 (AGN03), Value for Money, setting out more detailed guidance on how the new requirements should be implemented. Key features of the requirements include:

- For all bodies, the auditor will need to provide a public narrative commentary against the Value for Money criteria in a new "Auditor's Annual Report" (AAR). This commentary will include a summary against each of the reporting criteria, setting out the work undertaken, and judgements and local context relevant to the findings.
- This commentary needs to be supported by more extensive work to understand the body's arrangements to secure economy, efficiency and effectiveness, to support this commentary and to identify whether there are risks of significant weaknesses in arrangements.
- If a risk of significant weaknesses is identified, additional work is required to determine whether there are significant weaknesses and to make relevant recommendations if this is the case on a timely basis, which will also be explained in the Auditor's Annual Report. The AAR will also include follow up on previous recommendations in respect of significant weaknesses and whether they've been implemented satisfactorily.
- The audit opinion will continue to include reporting by exception, though now this will be where the auditor has identified a significant weakness in arrangements rather than an overall conclusion on arrangements.

The three criteria that would be considered in Value for Money work are be:

- **Financial sustainability:** How the body plans and manages its resources to ensure it can continue to deliver its services.
- **Governance:** How the body ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness:** How the body uses information about its costs and performance to improve the way it manages and delivers its services.

The National Audit Office and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements. Expectations in this area are likely to continue to evolve as practical issues emerge in implementation.

Next steps

- We will undertake the required VfM planning work under the revised procedures and we will report to the Committee on our planned approach and any identified risks of significant weaknesses in arrangements.
- We are agreeing with management the timing for performing additional work on arrangements ahead of the year-end. When the national timetable is announced, we will agree with you the impact of the additional reporting requirements on the planned reporting timetable.
- As the detailed impact on scope becomes clearer, we will discuss and agree the impact of the required scope changes with management.
- Our year-end reporting will include our draft findings ahead of issue of the Auditor's Annual Report.

Redmond review of financial reporting and external audit

The review has recommended significant changes to the arrangements governing local audit.

Issue

On 10 July 2019, the Secretary of State for Housing, Communities & Local Government asked Sir Tony Redmond to conduct a Review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014, with the report issued on 8 September 2020.

The scope of the review covered: whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Local Audit and Accountability Act 2014 (which replaced the Audit Commission arrangements); whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils; whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and to make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

The review's recommendations include:

- Proposing a single overarching body, the Office of Local Audit Regulation ("OLAR"), responsible for the co-ordination and regulation of local audit activity. This would bring together responsibilities currently held by Public Sector Audit Appointments, the National Audit Office, the Financial Reporting Council, and the Institute of Chartered Accountants in England and Wales. The OLAR would also publish reports summarising the results of audits across the sector. The OLAR would report to a new Liaison Committee comprising key stakeholders and chaired by MHCLG on the development of local audit. Councils reviewing their governance arrangements, including: the auditor reporting annually to Full Council; considering appointing at least one independent, suitably qualified, member to the Committee; and formalising the Chief Executive Officer, Monitoring Officer and Chief Financial Officer meeting with the Key Audit Partner at least annually.
- Extending the timetable for local authority audits, probably to 30 September from 31 July each year.
- Revising the fee structure for local audit, to appropriately reflect the cost of delivery of audit and the required resources for audit quality.
- The Ministry of Housing, Communities & Local Government should review its framework for assurance over financial sustainability of local government. The review suggests potential additional audit requirements around financial resilience that the OLAR may consider, including audit review of compliance with the CIPFA Financial Management Code (which MHCLG might give statutory status).
- Introducing a new standardised statement of service information and costs prepared by each authority, compared to budget. This is envisaged to be a clearer way to communicate with taxpayers and service users. This report would be subject to some form of audit sign-off. With budgetary performance separately reported, it is suggested CIPFA review the main accounts requirements, which may enable some disclosures to be removed (effectively moving the financial statements to IFRS reporting).

The implementation of most of the recommendations will require further consultation or primary legislation.

Next steps

- We will update the Committee as proposals move forward for implementation of the recommendations.
- We would welcome the opportunity to implement the proposal to report annually to the Authority, and to include a formal meeting with CFO, Monitoring Officer and Treasurer in our structure of contacts and interactions with the Authority.

Revisions to auditing standards coming into effect
ISA (UK) 570 – Going concern

The Financial Reporting Council (FRC) issued a revised going concern standard in September 2019, that takes effect for periods commencing on or after 15 December 2019. For local authorities, this will be March 2021 year ends and later.

The revision was made in response to recent enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

We have summarised below the key areas of change in the standard – however, the Public Audit Forum is also consulting on changes to Practice Note 10, with the intention of reflecting public sector considerations in the approach to going concern, and so the ultimate impact of ISA (UK) 570 changes will be affected by this.

The key changes affect:

- Risk assessment procedures and related activities, increasing consideration of the entity's business model, operations and financing
- The auditor's evaluation of management's assessment of the going concern assumption (which therefore requires a clearly documented assessment)
- Enhanced professional scepticism requirements, including around the evaluation of the sufficiency and appropriateness of audit evidence
- Considering the appropriateness of disclosures; and
- Reporting in enhanced audit reports.

"The revised standard means UK auditors will follow significantly stronger requirements than those required by current international standards."

FRC's press release, 30 September 2019

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Since 2015, the International Auditing and Assurance Standards Board (IAASB) has sought to identify audit issues relating to accounting estimates for financial institutions and other entities. Initially, this focused on the impact of IFRS 9 *Financial Instruments*, because it would fundamentally change the way that banks and other entities account for loan assets and other credit exposures.

However, the IAASB concluded that most, if not all, issues identified for expected credit losses would be equally relevant when auditing other complex accounting estimates. Accordingly, a holistic revision of ISA 540 was undertaken and the new standard takes effect for periods commencing on or after 1 January 2020.

We summarise on the next few slides how this will impact our audit.

"There is a clear need to update ISA 540 to support better quality audits of increasingly complex accounting estimates"

FRC letter to the IAASB, July 2017

Area of change	Impact on our audit	Impact on the Authority
Assessment of oversight and governance relating to estimates	In connection with our planning work to understand the entity and its environment, including internal control, we will specifically inquire regarding management's processes, and the oversight and governance of those processes relating to accounting estimates.	You will need to consider the adequacy of your processes and controls over estimates, and documentation thereof.

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the Authority
Identification of inherent risk factors; separate assessment of inherent risk and control risk Objectives-based work effort requirements	Recognising a spectrum of inherent risk, we will assess risks of material misstatement in estimates with reference not only to estimation uncertainty, but also complexity, subjectivity or other inherent risk factors, and the interrelationship among them. We will specifically assess control risk relating to estimates, which may require us to evaluate the design and determine implementation of an increased number of internal controls. Our subsequent audit procedures will be responsive to this assessment, and designed to obtain evidence around the methods, significant assumptions, data and (where applicable) the selection of a point estimate and related disclosures about estimation uncertainty.	You will need to provide clear documented rationale for (a) the selection and application of the method, assumptions and data in making the accounting estimate, including any changes in the current year, and controls relating to those aspects; and/or (b) the selection of a point estimate and related disclosures for inclusion in the financial statements.
Enhanced “stand back” requirement, to evaluate the audit evidence obtained	We will specifically design our procedures, to enhance our application of professional scepticism, so that they are not biased towards finding corroborative evidence; our overall evaluation of the evidence obtained will weigh both corroborative and contradictory evidence.	You should expect more challenge of the evidence provided in support of accounting estimates, use of external data sources and your consideration of contradictory evidence.

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the Authority
Enhanced requirements about whether disclosures are "reasonable"	The extant ISA 540 required us to evaluate whether disclosures were "adequate". The change to "reasonable" will involve greater consideration of the overall meaning conveyed through disclosures. For example, where estimation uncertainty associated with an estimate is multiple times materiality, we will consider whether the disclosures appropriately convey the high degree of estimation uncertainty and the range of possible outcomes.	You should expect more challenge on disclosures relating to estimates, particularly for where you have selected a point estimate from a range and those with high estimation uncertainty.
New requirements when communicating with those charged with governance	In accordance with ISA (UK) 260 and ISA (UK) 265, our communications from the audit have included significant qualitative aspects of your accounting practices and significant deficiencies in internal control. With the revised ISA (UK) 540, these communications will specifically include matters regarding accounting estimates and take into account whether the reasons for our risk assessment relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors.	You should expect increased reporting in relation to accounting estimates which may be mirrored in our audit report if it involves a Key Audit Matter.

Areas where we consider the impact to be greatest:

Key areas impacted will include pension liabilities, valuation of property, accruals and provisions. We will expect management to produce documentation around their processes and we will perform design and implementation of controls established by management on these areas.

Maintaining audit quality

Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

The role of audit	• Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability); Deloitte fully supports an independent review into the role of auditors • The Government's Brydon Review will consider UK audit standards and how audits should evolve
Would it be better to have audit only firms?	• Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit. • Our investment in audit innovation, training and technology is greater because of the multidisciplinary model
Is the current audit market uncompetitive?	• We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders; there are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering • The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies
Independence and conflicts from other services	• Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients • Deloitte invests heavily in systems, processes and people to check for potential conflicts • We have governance in place to assess any areas of potential conflict, including where required to protect the public interest • Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue)
Deloitte	• Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest • Our Impact Report and Transparency Report are available on our website https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html

Coronavirus (COVID-19) outbreak
How is Deloitte responding?

Deloitte has been closely monitoring and managing our response to the COVID-19 situation since its inception in order to be able to respond as necessary. The health and safety of our people is paramount, but we are doing our utmost to ensure we can complete audits to required timetables. We summarise below how we are responding.

Impact on our audit and our response

We have Business Continuity Plan ('BCP') arrangements which align to ISO 22301. Our BCP for the firm has been enacted to consider and mitigate the impact of COVID-19 across our operations. The health and safety of our people and those we work with comes first. This includes the provision of advice and support to staff and associates, development of response plans, and upgrades to our IT infrastructure to increase capacity for secure remote working.

We have the capability to work remotely with our audited entities, utilising a number of collaboration tools, including Deloitte Connect (a tool that facilitates secure two-way dialogue between the Deloitte team and management to effectively manage engagement co-ordination) and MS Teams allowing us to collaborate and supervise activities.

We have adequate server capacity for all our people to work remotely. A key element of our contingency planning strategy has been to advise all our people to take their laptops home with them each evening and over weekends so they are able to work from home as the need arises.

We are in regular contact with regulators as well as other Deloitte Member Firms to co-ordinate and understand the impact locally so we can execute global audits.

Our audit teams are prioritising the on-premises work that needs to get done (e.g. stock takes).

Internally, we have travel restrictions in place and we have implemented meeting and congregation protocols to try to minimise contagion. We are also reviewing team compositions to try to minimise the risk of full teams being disrupted.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Authority.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Use of this report

This report has been prepared for the Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Bristol, February 2021

Appendices

Our approach to quality
AQR team report and findings

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2019/20 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

Our approach to quality

AQR team report and findings

The AQR's 2019/20 Audit Quality Inspection Report on Deloitte LLP

"We reviewed 17 individual audits this year and assessed 13 (76%) as requiring no more than limited improvements. Of the ten FTSE 350 audits we reviewed this year, we assessed nine (90%) as achieving this standard."

"We have highlighted in this report aspects of firm-wide procedures which should be improved, including strengthening the monitoring of the firm's audit quality initiatives."

"Our key findings related principally to the need to:

- Improve the extent of challenge over cash flow forecasts in relation to the impairment of goodwill and other assets.
- Enhance the effectiveness of substantive analytical review and other testing for revenue.
- Improve the assessment and extent of challenge regarding management's estimates, particularly for model testing."

"The firm has taken steps to address the key findings in our 2019 public reports, with actions that included focused training and standardising the firm's audit work programs. We have identified improvements, for example in the audit of potential prior year adjustments and related disclosures, a key finding last year. We also identified good practice in a number of areas of the audits we reviewed (including effective group oversight and robust risk assessment) and in the firm-wide procedures (including the firm's milestone program, with expected dates for the phasing of the audit monitored by the firm)."

Our responsibilities explained

Fraud responsibilities

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified risks of material misstatement due to fraud in completeness and cut-off of expenditure, and management override of controls.
- We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Whilst this requirement has been in place for a few years for public interest entities (as defined by the EU Audit Regulation), recent changes to ISAs (UK) mean it will apply to **all** entities for periods **commencing on or after 15 December 2019.**

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Our responsibilities explained

Fraud responsibilities

We will make the following inquiries regarding fraud and non-compliance with laws and regulations:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to risks of fraud.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Fees and Independence

The professional fees expected to be charged by Deloitte LLP in the period from 1 April 2020 to 31 March 2021 are as follows:

	Current year £ (excluding VAT)	Prior year £ (excluding VAT)
Financial statement audit including Whole of Government Accounts and procedures in respect of Value for Money assessment		34,650
Fee in relation to additional testing as a result of the McCloud judgement		-
Total audit		**34,650**
Total fees		**34,650**

We confirm all Deloitte network firms are independent of the Authority. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.