

Planning report to the Audit & Standards Committee for the year ending 31 March 2022

Issued on 9 September 2022 for the Audit & Standards Committee on the 27 September 2022
Audit and Standards Committee
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Audit lead introduction

The key messages in this report

I have pleasure in presenting our planning report to the Audit & Standards Committee for the audit of the 2021/22 financial statements. I would like to draw your attention to the key messages of this paper:

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; and
- A well planned and delivered audit that raises findings early with those charged with governance.

Audit Plan

We have updated our understanding of the Council through discussion with management and review of relevant documentation from across the Council.

Based on these procedures, we have developed this plan in collaboration with the Council 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 Council.

Significant Audit Risks

We have taken an initial view as to the significant audit risks the Council faces. These have been identified as:

- Capital expenditure;
- Management Override of Controls; and
- Valuation of Car parks.

In addition, other areas of audit focus are identified as the pension liability and Covid-19 grants.

Our Commitment to Quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Michelle Hopton
Audit Lead

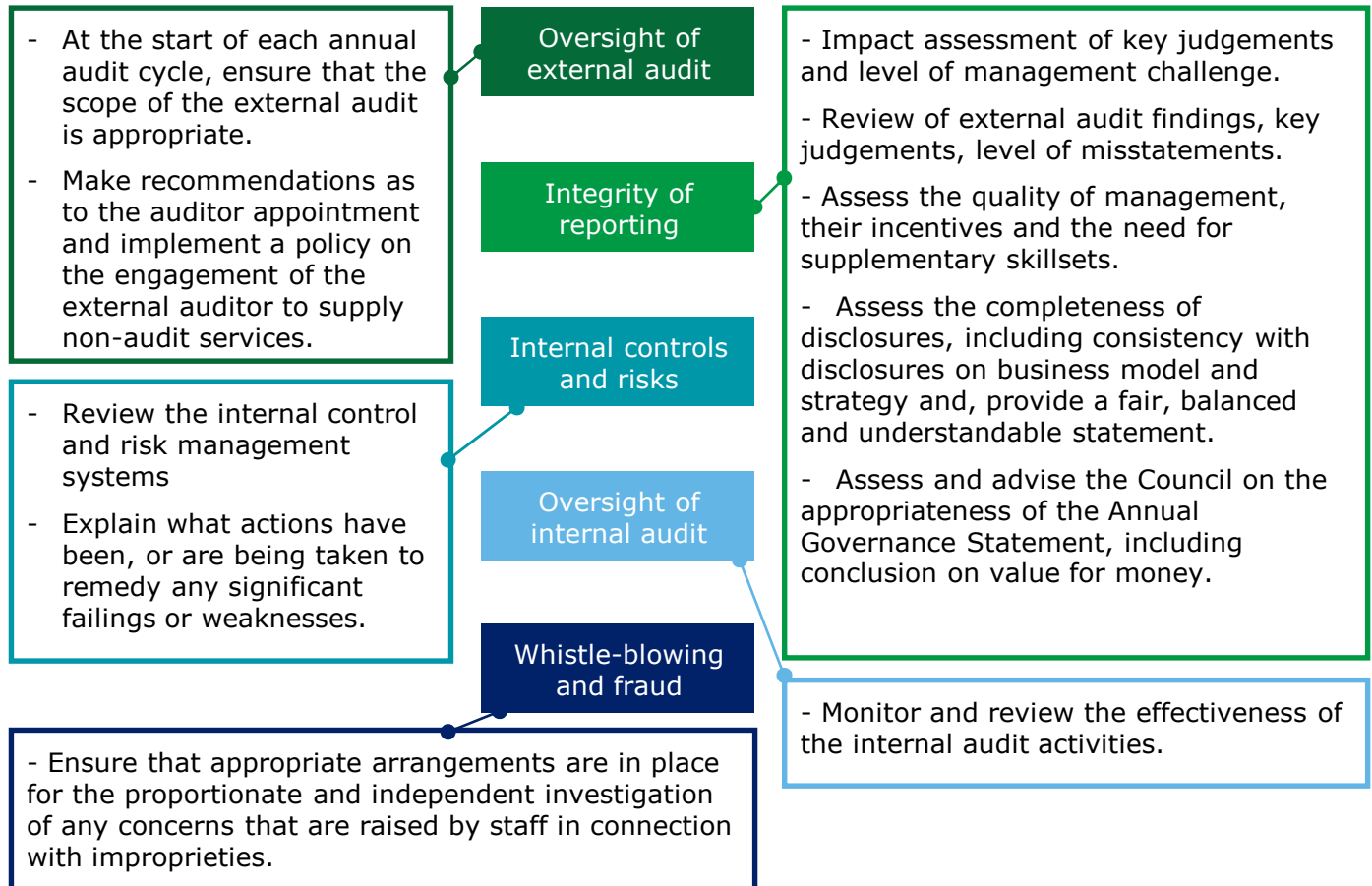
Responsibilities of the Audit & Standards Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit & Standards Committee?



As a result of regulatory change in recent years, the role of the Audit & Standards Committee has significantly expanded. We set out here a summary of the core areas of Audit & Standards Committee responsibility to provide a reference in respect of these broader responsibilities.



Your control environment

What we consider when we plan the audit

Responsibilities of management

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

FRC guidance on good practice

The FRC, in its Review of Governance Reporting, issued November 2021, has identified good practice as including a detailed description of the process for reviewing the effectiveness of risk management and internal control systems and clarity on what the outcome of the review. This would include whether any weaknesses or inefficiencies were identified and explanations of what actions the board has taken, or will take, to remedy these.

Responsibilities of the Audit & Standards Committee

As previously noted in the Responsibilities of the Audit & Standards Committee on page 4, the Audit & Standards Committee is responsible for:

- Reviewing internal financial controls and internal control and risk management systems (unless expressly addressed by a separate risk committee).
- Monitoring and reviewing the effectiveness of the internal audit function; where there isn't one, explaining the absence, how internal assurance is achieved, and how this affects the work of external audit.
- Reporting in the annual report on the annual review of the effectiveness of risk management and internal control systems.
- Explaining what actions have been, or are being taken to remedy any significant failings or weaknesses.

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

We have spent time with management understanding the current year matters, such as Covid-19 arrangements 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. More detail is given on page 7.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report.



Determine materiality

We have determined a materiality of £1.7m (2020/21 £1.5m). This is based on 2% of total expenditure per the Council's 2021/22 draft accounts. We will report to you any misstatements above £85k (2020/21 £77k). We will report to you misstatements below this threshold if we consider them to be material by nature.

Significant risk assessment

We have identified significant audit risks in relation to the Council. More detail is given on page 12 to 15.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of Stroud District Council. 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

Scope: we have three key areas of responsibility under the Audit Code

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the National Audit Office ("NAO"). The Council 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 Council'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 Council.

Value for Money (VfM) conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

We will need to assess three areas as part of our procedures:

- Financial sustainability;
- Governance and Improving economy; and
- Efficiency and effectiveness.

This will require a minimum level of work at every local public body, with additional risk based work where relevant.

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK and Ireland) 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.

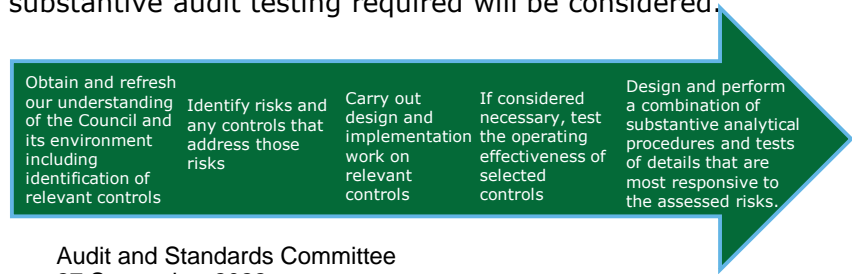
We will review their reports and meet with them to discuss their work where necessary. We will review the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit, where necessary, to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council'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 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 Council complete the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures, as well as 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 Updated Code of Audit Practice changes the approach of external audit work away from the auditor performing a risk assessment, and then only performing further work if a significant risk were identified, to specifying procedures that will need to be undertaken in each of three areas – Financial sustainability; Governance and Improving economy, efficiency and effectiveness.

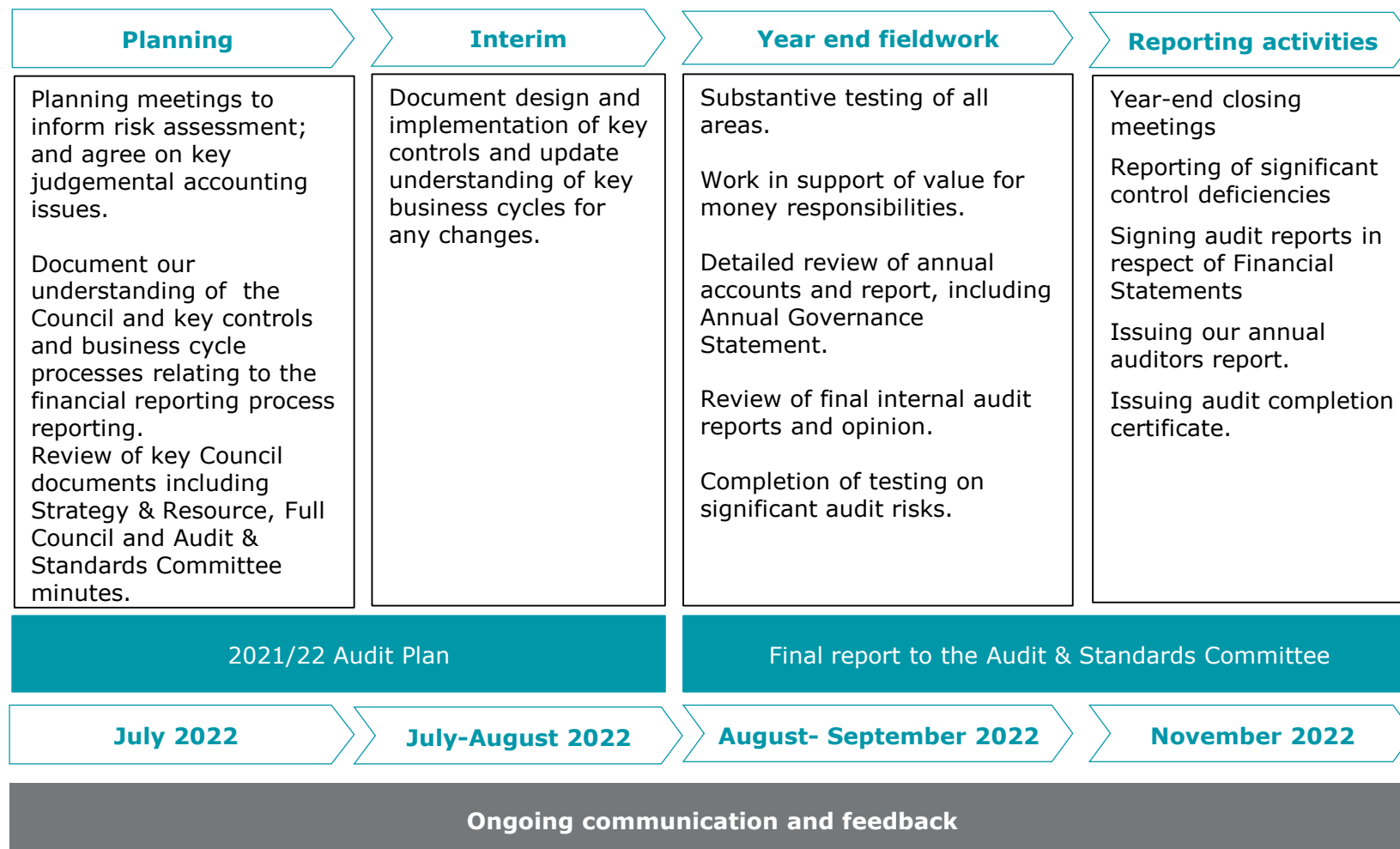
This will require a minimum level of work at every local public body, with additional risk based work where relevant. The National Audit Office (NAO) has recently issued an audit procedures scope and discussions on implementation are ongoing.

We will report by exception any matters we identify that indicate the Governance Statement does not comply with the CIPFA guidance, or is misleading or inconsistent with information of which we are aware from our audit. We are not required to consider, nor will we consider, whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you. Please note timing of the Grant work will be communicated separately.



Materiality

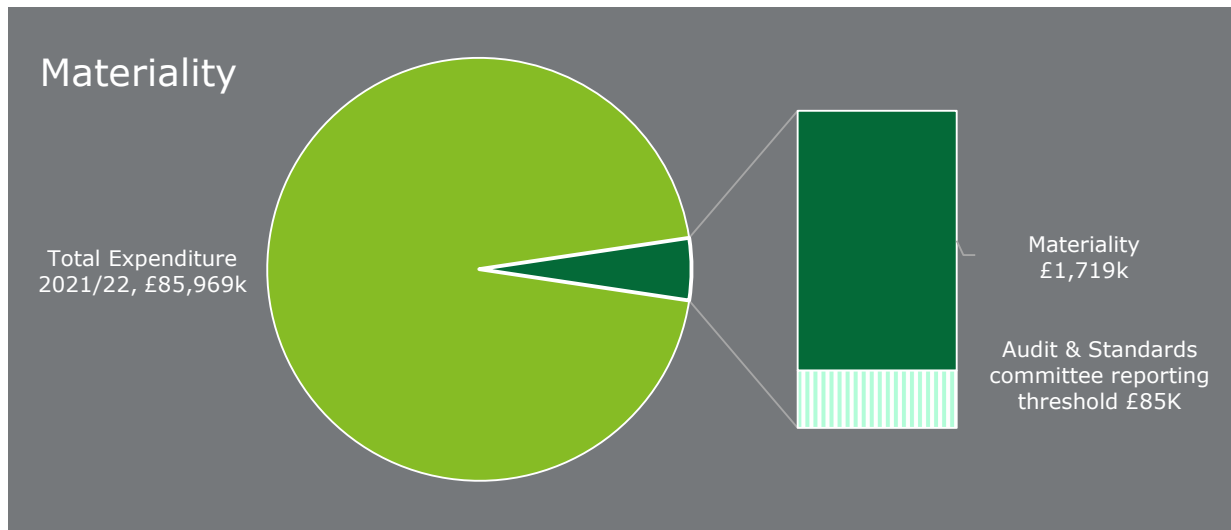
Our approach to materiality

Basis of our materiality benchmark

- The audit lead has determined materiality as £1.719m (2020/21 £1.5m), 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 expenditure based on the Council's 2021/22 draft accounts as the benchmark for determining materiality.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £85k (2020/21 £77k).
- 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 Audit & Standards Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Significant risks

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; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

Deloitte view

Management must carefully consider the principal risks, uncertainties and accounting estimates of the Council.

Expected principal risks

- Property valuations
- Impairment
- Pension Liability
- Provision for Business Rates Appeals
- Funding Settlement
- Regulatory

IAS 1 Critical accounting estimates

- Impairment
- Provisions and contingencies
- Property valuations












Changes in your business and environment

The Covid-19 pandemic broke out in 2020, however the majority of the impact of the pandemic was incurred in the 2020/21 financial year. This is due to the role that local government had played in the distribution and providing Covid-19 grants to local businesses and benefits to the local residents.

In 2021/22 the council was still distributing and providing Covid-19 grants to local businesses and benefits to the local residents.

The next page summarises the significant risks that we will focus on during our audit.

Significant Audit Risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Expected to be included in our report to the Audit & Standards Committee	Slide no.
Capital expenditure			D+I			13
Management Override of Controls			D+I			14
Car park valuations		-	D+I			15

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

Low Level of Judgement



Medium Level of Judgement



High Level of Judgement



Significant Audit Risks

Risk 1 – Capital expenditure

Risk identified

Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the capital expenditure.

The Council’s capital expenditure in 2021/22 was £17,695k (2020/21 £8,458k).

There is an element of judgement in applying the relevant capitalisation criteria for expenditure. We therefore consider that there is an incentive for revenue expenditure to be capitalised so that this expenditure does not impact the statement of comprehensive income in one year, but is instead spread over a number of years through the depreciation charges in an attempt to report a more favourable year end position.

Our response

Our work in this area will include the following:

- We will assess the design and implementation of the key controls in place in relation to the determination of capitalisation expenditure
 - We will test capital expenditure on a significant risk sample basis to confirm that it complies with relevant accounting requirements
-

Significant Audit Risks

Risk 2 – Management Override of Controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. 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 Council's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks: capital expenditure, car parks valuation, management override of controls. 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;
 - We will risk assess journals and select items for detailed testing. A sample of journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest. The appropriateness of these journals will be assessed through detailed testing;
 - 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 Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.
-

Significant Audit Risks

Risk 3 – Car Park valuations

Risk identified	<p>The Council held £356m of property, plant & equipment assets at 31 March 2022 (2020/21 £330m).</p> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle.</p> <p>In 2020/21, Valuation of the Church Street car park did not make an allowance from a net income figure to reflect the hypothetical rental range. The valuation was therefore considered to be overstated by c. 20%, the projected overstatement was £1m which was reported as unadjusted misstatement. In 2021/22, the council revalued car parks assets with the revaluation value of £3.3m (£5.3m).</p> <p>Although revaluations are carried out by an independent qualified valuer, there is an element of judgement in applying various rates and percentages in valuing the assets, especially in car park valuation, different income or yields used can have a material impact on valuations.</p>
Our response	<ul style="list-style-type: none">• We will test the inputs used in the car park valuations including the average income provided to the valuer, and also test if an allowance was made from net income figures in valuation as per our prior year’s audit findings.• We will use our valuation specialists, Deloitte Real Assets Advisory, to review and challenge the appropriateness of the assumptions used in the year-end valuation of the Council’s car park assets.• We will consider the mathematical accuracy of the revaluation workings in line with ISA540 requirements.• We will consider the presentation of revaluation movements and impairments, taking into account revaluation reserves for individual assets, and the disclosures included in the financial statements.• We will challenge management’s assessment whether any impairment arises in respect of newly capitalised expenditure.• We expect to include this risk in our audit report because it will have a significant effect upon our overall audit strategy, allocation of resources, and the direction of the efforts of the team.

Other Areas of Audit Focus

Pensions Liability Valuation

Risk identified

The Council are part of the Local Government Pension Scheme operated by Gloucestershire County Council. The Council recognised a combined pensions liability of £51.2m at 31 March 2021 which decreased to £36.6m as at 31 March 2022. The Code requires that their year end carrying value should reflect the appropriate fair value at that date.

Hymans Robertson act as the Council's expert actuary, who produce a report outlining the liability and disclosures required.

The pensions valuation is an area of audit interest due to the material values attached to the valuations and disclosures in the financial statements. This has not been classified as a significant risk as there are limited movements in the membership data through discussion with the management, and we understand that the assumptions and methodologies used are consistent with those in the previous years. We also understand that there have been no significant changes in the membership of the scheme or accrual of benefits for the year.

Our response

We carry out a separate, detailed risk assessment of each of the individual components of the calculation (for example market assumptions, membership data, assets and liabilities) using a developed methodology which takes into account factors such as an assessment of the actuary. We scope our work, including the nature and extent of our actuarial specialists involvement, in a way which responds to this detailed risk assessment. Should our risk assessment change our overall audit approach in respect of testing pensions, we will notify the Audit & Standards Committee.

We will confirm the disclosure of the pension figures in the statement of accounts agree with those provided by the scheme actuary.

We will request an IAS19 letter from the pension fund auditors.

Other Areas of Audit Focus

Covid-19 related Grants

Risk identified	The Council received significant grant funding in the prior year (£47.4m) as part of the Government's response to covid-19, which has continued into 21/22 at a reduced rate (£13.6m). There are inherent judgements in relation to the revenue recognition criteria being met for these grants as well as the accounting treatment for these funds as either principle (where the Council have control and therefore recognise in the financial statements) or agency (where the use is mandated and the Council does not include the income and expenditure in the financial statements). We reviewed the accounting treatment for these grants in the prior year and there are significantly fewer grants in the 21/22 and therefore do not consider this a significant risk.
Our response	We will review managements assessment for the treatment of grants recognised in the year and review the relevant contract documentation to support their assessment. As our work progresses we will continue to monitor our assessment of the risk levels around these grants and communicate any changes to the committee.

Value for Money

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. In accordance with Code of Audit Practice 2020 and related Auditor Guidance Note 03, we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to VFM arrangements, which might include emerging risks or issues.
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

AGN03 requires auditors to set out the results of their risk assessment, and we will report to a Audit & Standards Committee on any matters arising from this work.

Coronavirus (Covid-19) Pandemic

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 also have adequate server capacity for all our people to work remotely. All our people have their laptops with them so they are able to work from home. Our people have remote access to the firm's network from Deloitte laptops (which utilise an always-on SSL VPN) and are able to elevate their privileges using remote token based access to the firm's network.

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.

We take seriously our responsibility to comply with the government guidance issued across the devolved nations of the United Kingdom. Our offices are open across the UK and we continue to review and update our guidance for when and why our personnel should work from an office or entity site.

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.

Use of this report

This report has been prepared for the Council, 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.

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

Audit and Standards Committee

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 Council.

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.

Other relevant communications

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

Deloitte LLP

Bristol | 9 September 2022

Appendices

Fraud responsibilities and representations

Responsibilities explained



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 the risk of fraud in relation to the capital expenditure and management override of controls as key audit risks for your organisation.



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.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:



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 the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- 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.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of Stroud District Council and will reconfirm our independence and objectivity to the Audit & Standards Committee for the year ending 31 March 2022 in our final report to the Audit & Standards Committee.
Fees	Details of the fees proposed for the period have been presented separately on the page 25. There are no non-audit fees.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's approach for the supply of non-audit services, and we do not supply non audit service to the council. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have not other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Independence and fees

The professional fees expected to be charged by Deloitte LLP in the period from 1 April 2021 to 31 March 2022 are as follows:

	Current year £ (excluding VAT)	Prior year £ (excluding VAT)
Stroud District Council Financial Statements		
Financial statement audit including Whole of Government Accounts and procedures in respect of Value for Money assessment	48,857	44,816
Additional work on Value for Money Requirements	TBC	15,000
Audit Overruns*	-	15,000
Total fees	TBC	74,816

* The prior year audit required additional senior audit input including technical team support on a number of key issues which resulted in increased audit fees.

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

Deloitte fees and planned timescales for completion of the audit are based on the following assumptions:

- the financial statements are provided in accordance with the agreed timescales, to the quality expected and have been subject to a robust quality assurance review;
- information provided to support the financial statements is in accordance with the agreed audit deliverables document;
- appropriate accommodation and facilities are provided to enable the audit team to deliver the audit in an efficient manner;
- all appropriate officials will be available during the audit;
- you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that are required in the Letter of Representation addressed to the engagement lead; and
- Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.

Our approach to quality

AQR team report and findings

We are proud of our people's commitment to delivering high quality audits and we continue to have an uncompromising focus on audit quality. Audit quality is and will remain our number one priority and is the foundation of our recruitment, learning and development, promotion and reward structures.

In July 2022 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 2021/22 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.

In that context, we are pleased that both the overall and FTSE 350 inspection results for our audits selected by the FRC as part of the 2021/22 inspection cycle show an improvement. 82% of all inspections in the current cycle were assessed as good or needing limited improvement, compared to 79% last year. Of the FTSE 350 audits reviewed, 91% achieved this standard (2020/21: 73%). This reflects our ongoing focus on audit quality, and we will maintain our emphasis on continuous improvement as we seek to further enhance quality.

We welcome the breadth and depth of good practice points identified by the FRC particularly those in respect of the effective challenge of management and group audit oversight, where the FRC also reports findings.

We are also pleased that previous recurring findings relating to goodwill impairment and revenue were not identified as key finding in the current FRC inspection cycle, reflecting the

positive impact of actions taken in previous years. We nevertheless remain committed to sustained focus and investment in these areas and more broadly to achieve consistently high quality audits.

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

The AQR's 2021/22 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had made progress on actions to address our previous findings and made improvements in relation to its audit execution and firm-wide procedures. The firm has continued to show improvement, with an increase in the number of audits we assessed as requiring no more than limited improvements to 82% compared with 79% in the previous year and 80% on average over the past five years. It is also encouraging that none of the audits we inspected were found to require significant improvements.

The area which contributed most to the audits requiring improvement was the audit of estimates of certain provisions. There were also key findings in relation to group audits, the review and challenge by the Engagement Quality Control Review (EQCR) partner and the application of the FRC Ethical Standard."

Our approach to quality

AQR team report and findings

Improve the audit of estimates in relation to certain provisions

How we have addressed this area as a firm

To address this finding, we have done, or plan to do, the following:

- Our main annual technical training includes specific training in relation to the audit of complex estimates and provisions and includes scenario examples for auditing management estimates. Our Engagement Team Based Learning (“TechEx Teams”) will also include a follow-on session focusing on accounting estimates.
- We plan to develop a checklist, similar to that in place for our banking audits, for auditing Expected Credit Loss (‘ECL’) models for corporate audit teams to use where there are complex models being deployed by the companies we audit.
- Additional coaching will be provided to improve experience and skills when performing corporate audits which have ECL provisions.
- We continue to hold monthly workshops with our partners and directors to brief them on areas of regulatory focus, including the root cause of issues identified, and raise awareness of the importance of the review process.

Our approach to quality

AQR team report and findings

Further enhance the consistency of the evaluation by the group audit team of the component auditors' work

How we have addressed this area as a firm

To address this finding, we have done, or plan to do, the following:

- We established a Group Audit coaching programme to support engagement teams in key areas relating to group audits, primarily through sharing of good practice and highlighting common pitfalls. This programme will be expanded for FY22/23 to increase the number of coaches and engagements to be coached ahead of December 2022 year-ends.
- We included a mandatory training module within our main annual training ("TechEx") on Group Audits which focused on effective direction, supervision and review of component auditors. Our Engagement Team Based Learning ("TechEx Teams") will also include a follow-on session focusing on Group Audits.
- We are performing a refresh of our Group Audit practice aid in light of inspection findings to develop a reference point for good practice examples. We also intend to share templates that audit teams can use to evidence the communications held throughout the audit process with component audit teams.
- Monthly workshops are held with partners and directors to brief them on the areas of regulatory focus. We also regularly communicate the FRC findings, including those on group audits to the wider audit practice during the inspection cycle through our Weekly technical email update to ensure that audit teams who might be affected by the findings are fully briefed.

Our approach to quality

AQR team report and findings

Strengthen the evidence of review and challenge by the engagement Quality Control Review Partner

How we have addressed this area as a firm

To address this finding, we have done, or plan to do, the following:

- We commenced an EQCR transformation programme in the second half of 2021 designed to build on our existing EQCR practices to further enhance the effectiveness of our EQCR process and improve the evidence retained to demonstrate the EQCR challenge.
- We have made enhancements to our EQCR allocation process and refreshed the onboarding of new EQCR partners, with a new onboarding pack that emphasises the expectations and accountability of the EQCR role.
- Our evidence of EQCR review and challenge template has been refreshed and updated.
- We have delivered additional guidance on expectations for the EQCR reviewers and also shared good practice examples across the audit practice.
- We have included reminders of the EQCR requirements with respect to the need to hold discussions with Key Audit Partners of material subsidiaries in our EQCR briefings which are delivered to all EQCR reviewers.
- We included reminders within our 'Group Audit' and 'Direction, Supervision & Review' training modules in our main annual training ("TechEx") on EQCR which focused on EQCR review requirements and policies.

Our approach to quality

AQR team report and findings

Appropriately apply the FRC Ethical Standard, particularly in relation to the approval of non-audit services

How we have addressed this area as a firm

To address this finding, we have done, or plan to do, the following:

- We have updated our templates and guidance in respect of the Objective, Reasonable and Informed Third Party ('ORITP') test for non-audit services.
- We have updated our breach management policies, as well as introduced additional training and guidance on the revised FRC Ethical Standard.
- We continue to develop further guidance and to monitor all areas of the application of the FRC Ethical Standard to manage the risk of recurrence.
- We plan to run further workshops and training for all Partners and Directors in Autumn 2022 to communicate FRC findings, re-iterate latest guidance, share examples and common pitfalls with a specific focus on the ORITP test.

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