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Consumer Scotland
Luchd-Cleachdaidh Alba

Consumer Scotland

Planning report to the Audit and Risk Committee on the 2023/24 audit – Issued on 5 March 2024 for the meeting on 12 March 2024

Contents

1.1 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.

I have pleasure in presenting our planning report to the Audit and Risk Committee ("the Committee") of Consumer Scotland ("CS") for the 2023/24 audit. I would like to draw your attention to the key messages of this paper:

Audit plan

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

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

Key risks

We have taken an initial view as to the significant audit risks CS faces. These are presented as a summary dashboard on page 14.

Wider scope requirements

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider-scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks.

In carrying out our risk assessment, we have considered the arrangements in place for each area, building on any findings and conclusions from the previous audit, planning guidance from Audit Scotland and developments within the organisation during the year. Our wider scope significant risks are presented on pages 17 to 20. As part of this work, we will consider the arrangements in place to secure Best Value (BV).

1.2 Introduction (continued)

The key messages in this report (continued)

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.

Added value

Our aim is to add value to CS through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help CS promote improved standards of governance, better management and decision making and more effective use of resources.

We have also shared our recent research, informed perspectives and best practice from our work across the wider public sector on pages 31 to 34 of this plan.

Pat Kenny
Associate Partner

2. Responsibilities of the Audit and Risk Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit and Risk Committee?

- To communicate audit scope
- To provide timely and relevant observations
- To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit and Risk Committee has significantly expanded. We set out here a summary of the core areas of Audit and Risk 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 Audit and Risk Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Monitor 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 Board, 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 risk committee).
- Explain what actions have been or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.
- 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 raised by staff in connection with improprieties.

3. Our audit explained

What we consider when we plan the audit

Responsibilities of management

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

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 Financial Reporting Council ("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 should be reported from the outcome of the review. This would include whether any weaknesses or inefficiencies were identified and explanations of what actions CS has taken, or will take, to remedy these.

Responsibilities of the Audit and Risk committee

As explained further in the Responsibilities of the Audit and Risk Committee slide on page 5, the Audit and Risk Committee is responsible for:

- Reviewing internal financial controls and internal control and risk management systems (unless expressly addressed by a separate risk committee or by the Board itself).
- Monitoring and reviewing the effectiveness of the internal audit function.
- 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 response

As stakeholders tell us they wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. We will be placing increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

4. An audit tailored to you

Overview of our audit plan

Identify changes in your business and environment

Cost pressures across the public sector will continue to pose a challenge for both short and long-term financial planning. This is considered further on pages 17 to 20.

Scoping

Our scope is in line with the Code of Audit Practice issued by Audit Scotland. More detail is given on page 10.

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 will use a materiality level of £64k (2022/23: £58k) in planning our audit. This is based on forecast gross expenditure. We will report to you any misstatements above £3.2k (2022/23: £2.9k).

Further details on our materiality considerations are provided on page 9.

Significant risk assessment

We have identified significant audit risks in relation to CS. More detail is given on pages 14 to 16.

Quality and Independence

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

5. 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.

Planning	Interim	Year end fieldwork and wider scope	Reporting
• Planning meetings • Discussion of the scope of the audit • Discussion of audit fees • Discussion of fraud risk assessment	• Understanding of key business cycles • Carry out detailed risk assessments • Review of Audit and Risk Committee papers and minutes • Review of the work performed by Internal Audit	• Audit of Annual Report and Accounts, including Annual Governance Statement • Complete wider scope work • Year-end audit field work • Year-end closing meetings	• Reporting of significant control deficiencies • Final Audit and Risk Committee and Board • Submission of final Annual Audit Report to the Committee and the Auditor General for Scotland. • Submission of audited Annual Report and Accounts to Audit Scotland
2023/24 Audit Plan	2023/24 Annual Audit Report		
November – February 2024	**February – March 2024**	**August – September 2024**	**September 2024**

Ongoing communication and feedback

6. Materiality

Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined materiality as £64k and performance materiality of £48k, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the Annual Report and Accounts.
- We have used 2% of forecast gross expenditure as the benchmark for determining materiality and applied 75% as performance materiality. The benchmark for performance materiality has increased from the 2022/23 benchmark of 65% due to no critical control deficiencies or misstatements being identified in the prior year audit. We have judged expenditure to be the most relevant measure for the users of the accounts.

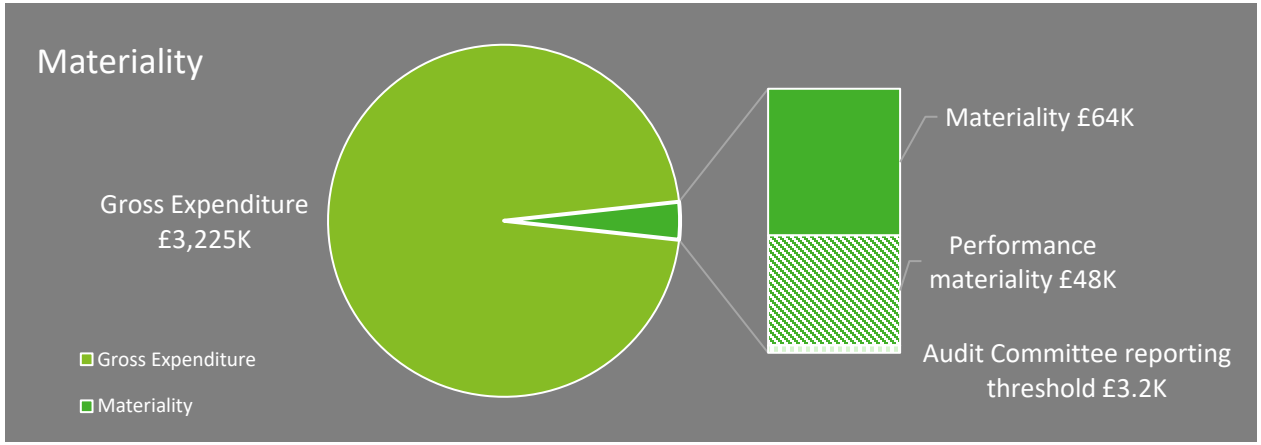
Reporting to those charged with governance

- We will report to you all misstatements found in excess of £3.2k.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Our Annual Audit Report

We will:

- Provide comparative data and explain any changes compared to prior year
- Explain any normalised or adjusted benchmarks we use
- Explain the concept of performance materiality and state what percentage of materiality we used for the audit, with our rationale.



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

7.1 Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Auditors activity	Planned output	Proposed reporting timeline to the Committee	Audit Scotland/ statutory deadline
Audit of Annual Report and Accounts	Annual Audit Plan Independent Auditor's Report Annual Audit Report	12 March 2024 24 September 2024 24 September 2024	31 March 2024 31 October 2024 31 October 2024
Wider-scope areas	Annual Audit Plan Annual Audit Report	12 March 2024 24 September 2024	31 March 2024 31 October 2024
Consider and report on Best Value arrangements	Annual Audit Plan Annual Audit Report	12 March 2024 24 September 2024	31 March 2024 31 October 2024

7.2 Scope of work and approach (continued)

Our approach

Liaison with internal audit and local counter fraud

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 to discuss their work where necessary. 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 CS 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 use and continually update International Financial Reporting Standards ("IFRS") disclosure checklists in conjunction with the requirements of the FReM to support CS in preparing high quality drafts of the Annual Report and Accounts, which we would recommend CS complete during drafting.

Other reporting prescribed by the Auditor General

In addition to the opinion on the financial statements, we are also required to provide an opinion on the following:

- The regularity of expenditure and income;
- Whether the audited part of the Remuneration and Staff Report has been properly prepared; and
- Whether the Performance Report and Annual Governance Statement are consistent with the financial statements and have been properly prepared.

8.1 Your control environment

High-level impact on our approach

Pre-planning knowledge	In the prior year we concluded that there were no deficiencies relating to the design and implementation (D&I) of controls subject to testing. The controls tested in the prior year included review and approval of journal entries, monthly financial monitoring, the controls to ensure completeness of Scottish Government funding, and payroll reconciliations. Our work was informed by walkthroughs of these controls. We raised two recommendations relating to review of year-end classification of liabilities and review of the holiday tracker to ensure the year-end holiday pay accrual is accurate and complete. We have not identified any significant changes within the organisation which would impact on the control environment in 2023/24.
Impact on our audit approach	**Performance materiality:** We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality with reference to factors such as the quality of the control environment and the historical error rate. As a result of positive findings during our previous audit in both substantive and controls testing, we have set performance materiality at a higher level, and this will decrease the extent of our substantive testing. Further detail is provided on page 9. **Reliance on controls:** We do not take a controls reliance approach to our audit. As CS uses the Scottish Government's SEAS system, many controls lie centrally within Scottish Government which are subject to audit by Audit Scotland.
IT environment	A quality IT environment underpins a good control environment, particularly as IT controls are configurable and often preventative in nature. In the prior year our IT specialists concluded that CS's IT environment applicable to financial processes is simple in nature and none of our significant audit risk areas are impacted by IT systems. We will therefore not perform IT testing as part of our audit.

8.2 Your control environment (continued)

Design and Implementation of controls testing

The following have been identified as the key controls within CS which will be subject to D&I testing. We will assess the effectiveness of the design of controls and evaluate whether controls have been implemented as expected. Our testing will combine enquiry of key staff and walkthroughs to demonstrate the controls taking place.

Control	Risk Addressed	Expected Timing of Testing
1. Approval of journal entries	Management override of controls	Interim
2. Monthly monitoring of financial performance	Management override of controls; Operating within expenditure resource limits	Interim
3. Reconciliation of Scottish Government funding	Operating within expenditure resource limits	Interim
4. Year-end accruals and prepayments	Operating within expenditure resource limits	Year-end
5. Payroll reconciliation	Management override of controls	Interim

9.1 Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Page no.
Risk 1 – Management override of controls	✓	DI	⚠	✗	15
Risk 2 – Operating within expenditure resource limits	✓	DI	⚠	✓	16

Level of management judgement

- Significant management judgement
- A degree of management judgement
- Limited management judgement

Controls approach adopted

- DI Assess design & implementation

9.2 Significant risks (continued)

Risk 1 – Management override of controls

Risk identified	In accordance with ISA (UK) 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the Annual Report and Accounts as well as the potential to override CS's controls for specific transactions. The key judgment in the Annual Report and Accounts is that which we have selected to be the significant audit risk – operating within expenditure resource limits. These are inherently the areas in which management has the potential to use their judgment to influence the Annual Report and Accounts.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: • We will consider the overall control environment and 'tone at the top'; • We will test the design and implementation of controls relating to journals and accounting estimates; • We will make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; • We will test the appropriateness of journals and adjustments made in the preparation of the Annual Report and Accounts. We will use Spotlight data analytics tools to select journals for testing, based upon identification of items of potential audit interest; • We will review accounting estimates for biases that could result in material misstatements due to fraud and perform testing on key accounting estimates as discussed above; • 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 entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

9.3 Significant risks (continued)

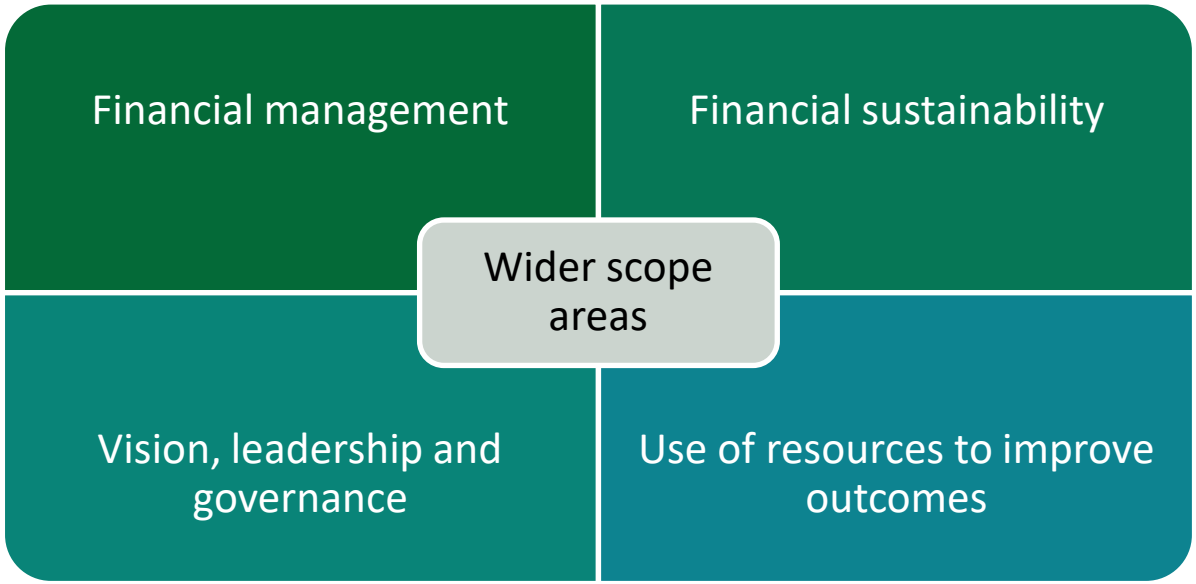
Risk 2 – Operating within the expenditure resource limits

Risk identified	In accordance with Practice Note 10 (Audit of Annual Accounts of public sector bodies in the United Kingdom), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition. We consider this fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. The risk is that CS could materially misstate expenditure in relation to year-end transactions, in an attempt to align with its tolerance target or achieve a breakeven position. The significant risk is therefore pinpointed to the cut off and completeness of accruals and the existence of prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.
Our response	We will evaluate the results of our audit testing in the context of the achievement of the limits set by the Scottish Government. Our work in this area will include the following: • Evaluating the design and implementation of controls around monthly monitoring of financial performance and the estimated accruals and prepayments made at the year-end; • Obtain independent confirmation of the resource limits allocated to CS by the Scottish Government; • Perform focused testing of a sample of accruals and prepayments made at the year-end; and • Performing focused cut-off testing of a sample of invoices received and paid around the year-end.

10.1 Wider scope requirements

Overview

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider-scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. As part of our wider scope audit work, we will consider whether there are organisational arrangements in place in this regard.

As part of our risk assessment, we have considered the arrangements in place for the wider-scope areas and have summarised the significant risks and our planned response on the following pages.

10.2 Wider scope requirements (continued)

Significant risks

Area	Significant risks identified	Planned audit response
Financial management	We have not identified any significant risks in relation to financial management during our planning work to date.	We will continue to review and assess the adequacy and appropriateness of the financial management arrangements in place and the financial capacity within CS.
Financial sustainability	There is a risk that robust medium to long term planning arrangements are not in place to ensure that CS can manage its finances sustainably whilst delivering services effectively.	We will assess the development of the medium-term financial plan, including an assessment of the risks and assumptions underpinning the plan per our prior year audit recommendation. We will also continue to review and assess strategic and workforce plans.

10.3 Wider scope requirements (continued)

Significant risks (continued)

Area	Significant risks identified	Planned audit response
Vision, leadership and governance	We have not identified any significant risks relating to vision, leadership and governance.	We will continue to review the work of the organisation and assess whether governance arrangements are operating effectively, including whether there is effective scrutiny, challenge and informed decision making. We will also follow-up on our prior year recommendation that Board papers should be published online alongside minutes to enhance openness and transparency.
Use of resources to improve outcomes	CS's Performance Framework was published in December 2023. There is however a risk that CS does not have sufficiently established performance management arrangements in place to demonstrate that resources are being directed to improving outcomes.	We will review the development of CS's performance management framework and assess whether it is adequate to demonstrate use of resources to improve outcomes.

10.4 Wider scope requirements (continued)

Other requirements

Area	Requirements
Anti-money laundering	We are required to ensure that arrangements are in place to be informed of any suspected instances of money laundering at audited bodies. Any such instances will be advised to Audit Scotland.
Fraud returns	We are required to prepare and submit fraud returns to Audit Scotland for all frauds at audited bodies: • Involving the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control. • Over £5,000.

11.1 Reporting hot topics

Ongoing macro-economic uncertainty

Reporting in times of uncertainty

Businesses face unprecedented uncertainty from a variety of sources, including stresses arising from energy supply and costs, inflation, foreign exchange volatility, commodity availability and pricing, global supply chain disruption, labour shortages and the impacts of climate change. Many of these issues are exacerbated by the ongoing conflict between Russia and Ukraine.

High-quality, transparent reporting that clearly explains the impact of these uncertainties on CS's financial position, performance and cash flows, as well as CS's response to these risks, remains as important as ever.

Impact of ongoing macro-economic uncertainty – Considerations

The current macro-economic uncertainty and the resulting challenges have a pervasive impact on the financial statements and need to be considered comprehensively across all account balances and disclosures, in particular those involving estimation or judgement.

Sources of uncertainty likely to impact CS's operations and corporate reporting include:

- **High energy costs and risk of energy shortages**
- **Rising interest rates**
- **Rising levels of inflation**
- **Supply chain disruptions**
- **Continued pressures on labour supply and wages**

Impact of ongoing macro-economic uncertainty – Action

We expect CS to have undertaken a comprehensive, evidence-based assessment of the risks relating to macroeconomic conditions including for example, higher energy costs, supply chain disruption, rising levels of inflation, commodity availability and labour shortages. Consideration should be given to how those risks affect both the operations of CS and the impact on the annual report and financial statements as a whole.

We expect CS to have considered the pressures throughout the value chain(s) in which they operate, including an assessment of the risks relating to suppliers and operations.

11.2 Reporting hot topics (continued)

Climate related risks

Deloitte view

The expectations of corporate reporting are increasing. While the focus is primarily on corporates, we highlight these areas where improved disclosures would help meet stakeholder expectations.

Accounting for and reporting of climate-related risks – Considerations

Stakeholder expectations

Stakeholders are clear that climate-related risks could be material to businesses in all sectors. In particular, stakeholders ask for clear, specific and quantified information that describes:

- how the impacts of physical and transition risks have been considered in preparing the financial statements;
- what climate-related assumptions and estimates were used to prepare the financial statements; and
- whether narrative reporting on climate risks and the accounting assumptions are consistent, or an explanation for any divergence.

Climate thematic reports

In July 2022, the FCA and FRC published **thematic reviews of Taskforce on Climate Related Financial Disclosures (TCFD) disclosures and climate-related impacts** reported in premium listed entities' financial statements. This follows up on the FRC's 2020 thematic review of climate-related considerations.

The FRC highlighted five broad areas for improvements in climate-change reporting in their thematic review:

- giving more **granular and company specific information** about the effects of climate change on different businesses, sectors and geographies;
- ensuring that the discussion of climate-related risks and opportunities is **balanced**;
- **linking climate-related disclosures**, such as the output of climate-related scenario analysis, with other relevant narrative disclosures in the annual report, such as the business model or strategy;
- explaining how **materiality** has been applied in deciding which climate-related information should be disclosed; and
- ensuring **connectivity between TCFD disclosures and the financial statements** to help investors understand the relationship between climate-related matters and judgements and estimates applied in the financial statements – for example, explaining clearly how different climate-related scenarios and the companies' own net zero commitments have been reflected in the financial statements.

The FRC report also includes disclosure examples and detailed expectations and can be found on the FRC's website here.

11.3 Reporting hot topics (continued)

Climate related risks (continued)

Accounting for and reporting of climate-related risks - Action

Governance

The impacts of climate change are a strategic issue that should be on CS's agenda and integrated into decision making. We expect entities to have:

- Reviewed their governance, processes and controls for identifying, and responding to, climate-related issues;
- Completed a robust climate assessment including all physical and transition risks;
- Assessed the climate change assumptions used in judgements and estimates in the financial statements;
- Evaluated the appropriateness and consistency of information in the financial statements and narrative disclosures; and
- Prepared a management paper setting out management's climate risk assessment and consideration of the impacts of climate change on the financial statements.

Financial statements

Regarding financial statement disclosures, we expect entities to consider the transparency of information about the climate-related judgements and assumptions. Information should be entity-specific and avoid boilerplate explanations.

The financial statements should clearly disclose:

- What climate-related assumptions have been used in preparing the financial statements;
- How significant climate risks or net zero transition targets have been taken into account in preparing the financial statements;
- Which climate-related scenarios have been considered in sensitivity analysis of climate-related assumptions and how they affect judgements and estimates in the financial statements.

Narrative reporting

We expect the narrative accompanying the financial statements to include the following:

- An explanation of how climate is assessed as a strategic issue.
- Clarity of whether climate change represents a principal or emerging risk and how it is being managed.
- For climate-related targets and metrics, an explanation of how those targets and metrics fit into strategic targets/approach.

11.4 Reporting hot topics (continued)

Cyber risk

Area	Management actions	Impact on the financial statements and annual report	Impact on our audit
Cyber risk	CS recognise cyber risk as part of its wider strategic risk around Business Continuity register which is monitored by the ARC and Board. In response to the strategic risk, internal audit has included plans as part of the 2023/24 Internal Audit Plan to carry out a review of risk arrangements which includes cyber security risks.	We recommend considering whether any additional disclosure or explanations are appropriate, including discussion of principal risks and uncertainties, or in the Annual Governance Statement. The AGS requires disclosure of how risks to data security are managed and controlled, as well as of any serious information governance incidents.	We will obtain an understanding of CS and its internal controls in relation to cyber as part of our understanding of CS's IT environment. We will make specific enquiries to identify whether a cyber breach has occurred during the period, and evaluate the impact of any cyber incidents, including any potential liabilities arising or impacts on compliance with laws or regulation. We will review the disclosures made for consistency with our understanding from our audit work.

12.1 Audit quality

Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

We will apply professional scepticism on material issues and significant judgements by using our expertise in the sector and elsewhere to provide robust challenge to management.

We will obtain a deep understanding of your business, its environment and of your processes in income, expenditure recognition and payroll expenditure enabling us to develop a risk-focused approach tailored to CS.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve property specialists to support the audit team in our work on the valuation of property assets.

In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills, delivered by Pat Kenny (Associate Partner).

Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach.

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

12.2 Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Audit quality is at the heart of everything we do. We are committed to acting with the highest levels of integrity in the public interest to deliver confidence and trust in business.

In July 2023, the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2022/23 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, our inspection results for our audits selected by the FRC as part of the 2022/23 inspection cycle remain consistent year-on-year, with 82% of all inspections in the cycle assessed as good or needing limited improvement. This reflects the ongoing investment we continue to make in audit quality, with a relentless focus on continuous improvement. Our audit culture and the audit quality environment we create are critical to our resilience and reputation as a business and we remain committed to our role in protecting the public interest and creating pride in our profession.

We value the observations raised by both the FRC AQR and Supervision teams, both in identifying areas for improvement and also the increasing focus on sharing good practice to drive further and continuous improvement.

We are pleased to see the positive impact of actions taken over the last 12-18 months to address findings raised by the FRC in the prior year relating to EQCR, Independence & Ethics and Group Audits, with none of these areas identified as key findings in this year's engagement inspection cycle. The reduction in findings in this area reflects the ongoing effectiveness of the actions taken, particularly the successful rollout of our group audit coaching programme. Our EQCR transformation programme, which commenced in the second half of 2021, has served to further enhance the effectiveness of our EQCR process and led to improved evidence on our audit files demonstrating the EQCR challenge.

We welcome the breadth and depth of good practice points raised by the FRC, particularly in respect of effective group oversight and effective procedures for impairments, where we have made sustained efforts and investment to drive consistency and high-quality execution.

All the AQR public reports are available on the FRC's website:

Audit Firm Specific Reports - Tier 1 audit firms | Financial Reporting Council (frc.org.uk)

12.3 Our approach to quality (continued)

FRC 2022/23 Audit Quality Inspection and Supervision report

The AQR's 2022/23 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had continued to show improvement in relation to its audit execution and firm-wide procedures.

None of the audits we inspected this year were found to require significant improvements and 82% required no more than limited improvements, the same as last year. This was the case for 78% of FTSE 350 audits (91% last year). The firm has maintained its focus on audit quality on individual audits, with consistent FRC inspection results.

The areas of the audit that contributed most to the audits assessed as requiring improvements were revenue and margin recognition, and provisions. There continues to be findings related to the audit of provisions, which was a key finding last year, although in different areas of provisioning. At the same time, we identified a range of good practice in these and other areas."

Inspection results: review of the firm's quality control procedures

"This year, our firm-wide work focused primarily on evaluating the firm's: actions to implement the FRC's Revised Ethical Standard; partner and staff matters; acceptance, continuance, and resignation procedures; and audit methodology relating to settlement and clearing processes.

Our key findings related to compliance with the FRC's Revised Ethical Standard, timely continuance procedures, and audit methodology relating to settlement and clearing processes.

We identified good practice points in the areas of compliance with the FRC's Revised Ethical Standard, partner and staff matters, and acceptance, continuance and resignation procedures."

12.4 Audit quality (continued)

Our commitment to audit quality and our system of quality management

Audit quality is at the heart of everything we do and our system of quality management (SQM) supports our execution of quality audits.

The FRC recently promulgated ISQM (UK) 1, a standard that sets out a firm's responsibilities to design, implement and operate a system of quality management for audits, reviews of financial statements, and other assurance or related services engagements.

Led by senior UK leadership, Deloitte UK's ISQM (UK) 1 implementation activities reached successful completion on 15 December 2022.

Deloitte UK performed its first annual evaluation of its system of quality management as of 31 May 2023. This evaluation was conducted in accordance with ISQM (UK) 1 and we concluded our SQM provides the firm with reasonable assurance that the objectives of the SQM are being achieved as of 31 May 2023.

For further details surrounding the conclusion on the oper effectiveness of the firm's SQM, including results of the monitoring activities performed, please refer to the disclosures within Appendix 5 of our publicly available transparency report.

13. 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 Annual Report and Accounts 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 CS.

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 CS, 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

Glasgow | 5 March 2024

Technical and sector developments

14. Climate and Sustainability reporting landscape in the Public Sector

Currently, there are a number of reporting frameworks that are being adopted by the public sector. However the climate and sustainability reporting landscape is changing and with change comes challenge and complexity. A summary of the **current status** of the reporting landscape in the public sector, and the likely **future** of reporting against sustainability and climate-related matters, including the challenges and next steps to consider, is noted below.

Current status | **Future landscape**

HM Treasury

In June 2021, the Financial Reporting Advisory Board (FRAB) as independent advisory board to HM Treasury, established a sustainability subcommittee (SSC) to consider how public sector annual reports and accounts can best reflect climate disclosure reporting matters.

In the March 2023 meeting, FRAB-SCC recommended that **HM Treasury** (HMT) ensure existing resources are publicised across the Public Sector, **including roll out of Taskforce for Climate-related Financial Disclosures (TCFD)-aligned reporting in a 3-phase approach.**

Phase 1 Application Guidance **applicable for 2023/24** annual reports and accounts – Governance disclosures, high level overview on Strategy, Risk Management and Metrics and Targets.

Phase 2 Application Guidance **applicable for 2024/25** annual reports and accounts) – qualitative focus on risk management with existing metrics and targets recommended disclosures with TCFD elements.

Phase 3 Application Guidance applicable for 2025/26 annual reports and accounts) - quantitative focus with strategy with expanded metrics and targets. The inclusion of scenario analysis and recommended disclosures with TCFD element and to align with the next round of greening government commitments 2025/30 (where possible).

2022 | 2023 | 2024

IPSASB / CIPFA

In 2022, **the IPSASB led a global consultation on advancing public sector specific sustainability reporting.** IPSASB has analysed the responses to the consultation and aims to publish the initial guidance by the end of 2023. IPSASB are looking to develop their guidance to follow the same approach as the International Sustainability Standards Board (ISSB), utilising the TCFD framework.

At its December 2022 meeting, the IPSASB commenced the scoping of public sector specific sustainability reporting. To do this, IPSASB set out to establish **Sustainability Task Force** to focus prioritise research on Sustainability-related, Climate-related & Natural Resources disclosures.

In April 2023, **CIPFA published a report on sustainability reporting in the public sector providing guidance, best practice and advice.** These recommendations draw on standards and frameworks already developed such as TCFD, GRI and ISSB as well as the work ongoing by IPSASB.

The IPSASB **aims to publish** initial guidance by the **end of 2023.**

What next?

- *It is likely that the TCFD framework will be the first sustainability reporting standard implemented for the public sector, notably for Central Government.*
- *Other relevant bodies (E.g. CIPFA and Department of Health & Social Care) to set their own reporting requirements for their respective sectors.*
- *Expect further clarity later this year when the IPSASB guidance is published.*

What about assurance?

In its March 2023 meeting, FRAB recognised the complexity of introducing formal assurance requirements, with plans to implement this only under early consideration by the National Audit Office (similar in the private sector). We recommend that public sector bodies develop a plan to meet the expected reporting requirements and consider what oversight and assurance will be required ahead of year-end.

Next steps

Based on the experiences of existing TCFD reporters, implementation of sustainability reporting frameworks and standards is known to be challenging and early planning is essential to help meet expected reporting requirements. Some key considerations in anticipation of increased focus for the public sector include:

- ***Granularity** – The need for more detail, specificity and granularity was a key theme from the regulator this year. Going beyond the headline of each recommended disclosure is now common practice.*
- ***Connectivity** – Within and between the narrative and financial statement disclosures. In the example of TCFD disclosures, significant focus has been placed on financial quantification of climate impacts and ensuring front and back half disclosures are consistent with each other.*
- ***Access to data** – All sustainability and climate reporting will require additional data, both in terms of quantity and crucially, quality of what is collected and reported. Currently some data may not be readily available or complete, and/or require challenge and oversight to obtain, measure and report.*

15.1 FRC's corporate reporting highlights

Findings of FRC monitoring work

The FRC's Annual Review of Corporate Reporting 2022/23 provides detail on the areas that gave rise to the highest number of queries during the Corporate Reporting Review (CRR) team's monitoring work. The Highlight section summarises the top 10 issues and included below are those issues with most relevance to public sector bodies.

Area	Companies should ensure that…
Impairment of assets	**...key inputs and assumptions applied in impairment testing have been disclosed and explained**, including the relevant values and sensitivity analysis, where required. Additional disclosures are required where headroom is low, and heightened uncertainties over inflation, consumer demand and interest rates may drive a wider range of reasonably possible outcomes for future cashflows and discount rates. Users should be able to understand how assumptions are consistent with discussion of uncertainties elsewhere in the report. **...impairment testing methodology complies with IFRS**, particularly that the grouping of assets into cash generating units (CGUs) is appropriate, the treatment of inflation in the discount rate and cashflows is consistent; and cashflows in 'value in use' calculations reflect the current condition of assets, before any future enhancement expenditure.
Judgements and estimates	**...all significant judgements, including those applied in performing the going concern assessment, have been described.** It is not sufficient to list the matters requiring judgement. **...disclosures about estimates include values, sensitivities and explain significant changes.** Sources of estimation uncertainty with a significant risk of resulting in a material adjustment within one year should be clearly distinguished from other estimates. **...disclosures are reassessed every year** to confirm all relevant matters are captured, immaterial issues are not rolled forward and the assumptions and ranges of reasonably possible outcomes remain appropriate in the company's current circumstances.
Cash flow statements	**...a robust pre-issuance review has been performed.** We found fewer 'routine' errors this year but continue to identify many issues from basic consistency checks, comparing the cash flow statement to other information in the financial statements. Other common errors we find through our desktop reviews relate to classification, netting, and reporting non-cash movements in the cash flow statement.

15.2 FRC's corporate reporting highlights (continued)

Findings of FRC monitoring work (continued)

Area	Companies should ensure that…
Strategic Report	**...the strategic report provides a fair, balanced and comprehensive review** of the company's development, position, performance and future prospects. This should include unbiased discussion of positive and negative aspects of performance, a clear articulation of the effects of economic uncertainty on the business, and should address significant movements in the financial statements, including those in the cash flow and balance sheet
Financial instruments	**...material risks arising from financial instruments are adequately disclosed,** along with how these are managed. In particular, this includes risks driven by inflation and rising interest rates, and related hedging arrangements. **...information about banking covenants is provided** unless the likelihood of any breach is considered remote.
Revenue	**...accounting policies are provided for all significant revenue streams** and describe the methodology applied, including the timing of revenue recognition, the basis for recognising any revenue over time, and any significant judgements made in applying those policies. **...they describe inflationary features in customer contracts** and the corresponding accounting treatment.
Provisions and contingencies	...they provide **clear and specific descriptions of the relevant exposure,** including the basis for determining the best estimate of the relevant outflow, and the timeframe over which it is expected to crystallise. **...the calculation and presentation comply with IFRS.** Provisions should not be presented net of any reimbursement asset and a consistent approach should be taken in reflecting the effects of inflation in cash flows and discount rates.
Presentation of financial statements	**...company-specific information about material accounting policies and transactions** is disclosed. It is important that these explain how the policies apply to the company's particular circumstances. **...the financial statements are carefully reviewed.** Common issues we found this year included errors in the classification of intercompany receivables balances between current and non-current, and failure to disclose material impairments of receivables on the face of the income statement.
Fair value measurement	...fair value measurements use market participants' assumptions, and provide high quality disclosures. We find most issues in the disclosure of recurring Level 3 measurements, for which the significant unobservable inputs should be quantified and a sensitivity analysis given. **Companies should consider the need for specialist third party advice** where no internal expertise.

16. Sector developments

The State of the State report 2024 – Increased demand and lower funding

Background and overview

The 12th edition of Deloitte and Reform's report on the UK public sector was launched in January 2024. Since 2012, we have aimed to create an annual snapshot of what's happening across government and public services to serve as an evidence base for informed discussion.

This year's State of the State finds public attitudes are concerned with NHS waiting lists, immigration and the country's infrastructure – alongside the increased cost of living crisis from prior years.

After years of reacting to crises, the latest State of the State report finds officials across the public sector eager for reform and calling for bold decisions about the future of government and public services.

Some key findings:

- The public expects big government to continue – but could be in for a shock
- Government needs to prioritise, so its aspirations match its resources
- People want public services they can access and complain to when things go wrong
- Digital maturity comes with mature digital problems

Next steps

Full report is available at: [The State of the State 2024 | Deloitte UK]

Appendices

17.1 Our other 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 operating within expenditure resource limits 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.
- We will communicate to you any other matters related to fraud that are, in our judgment, relevant to your responsibilities. In doing so, we shall consider the matters, if any, regarding management's process for identifying and responding to the risks of fraud and our assessment of the risks of material misstatement due to fraud.

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.

17.2 Our other responsibilities explained (continued)

Fraud responsibilities (continued)

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

Management and other personnel:

- 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, in particular the Chair of the Audit and Risk Committee.
- We will also make inquiries of personnel who are expected to deal with allegations of fraud raised by employees or other parties.

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, including those specific to the sector.

18. 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 CS and will reconfirm our independence and objectivity to the Audit and Risk Committee for the year ending 31 March 2024 in our final report to the Audit and Risk Committee.
Fees	The expected fee for 2023/24, as communicated by Audit Scotland in December 2023 is analysed below:

	£
Auditor remuneration	43,880
Audit Scotland fixed charges:	
• Pooled costs	4,430
Total expected fee	**48,310**

There are no non-audit fees.

Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and CS's policy for the supply of non-audit services or any apparent breach of that policy. 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 no other relationships with CS, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Deloitte.