



East Ayrshire Integration Joint Board

Planning report to the Audit and Performance Committee on the 2020/21 audit

Issued on 3 March 2021 for the meeting on 9 March 2021

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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 annual accounts.
- 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 Performance Committee ('the Committee') of East Ayrshire Integration Joint Board ('the Board') for the 2020/21 audit. I would like to draw your attention to the key messages of this paper:

Audit plan

We have updated our understanding of the Board, including discussion with management and review of relevant documents. This has included consideration of the impact the COVID-19 pandemic has had on the Board. Based on these procedures, we have developed this plan in collaboration with the Board to ensure that we provide an effective audit service that meets your expectation and focuses on the most significant areas of importance and risk to the Board.

Key risks

We have taken an initial view as to the significant audit risks the Board faces. These are presented as a summary dashboard on page 11.

Audit dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland.

In carrying out our annual risk assessment, we have considered the arrangements in place for each dimension, building on our findings and conclusions from previous years' audits as well as planning guidance published by Audit Scotland. Our significant risks are presented on pages 20 to 24.

As part of our work on the audit dimensions, we will consider the arrangements in place to secure Best Value (BV) as well as other wider scope requirements set out on page 20.

Introduction (continued)

The key messages in this report (continued)

Regulatory change

Our audit approach reflects changes to International Standards on Auditing (UK) on going concern (ISA (UK) 570), and Practice Note 10, effective for this year.

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.

As part of our planning discussions with management, we have shared our “*Key Lessons from 2019/2020 Audits*” to help prepare for the 2020/21 audit, ensuring a focus on quality.

Added value

Our aim is to add value to the Board 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 the Board 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 27 to 32 of this paper.

Pat Kenny
Audit Director

Responsibilities of the Audit and Performance Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit and Performance Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

We use this symbol to highlight areas of our audit where the Audit and Performance Committee needs to focus attention.



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

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Implement a policy on the engagement of the external auditor to supply non-audit services.

Oversight of external audit

Integrity of reporting

Internal controls and risks

Oversight of internal audit

Whistleblowing and fraud

- 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.

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

- 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.

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

Your control environment

What we consider when we plan the audit

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.

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 annual accounts that are free from material misstatement, whether due to fraud or error.

As stakeholders tell us that 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.

Reliance on controls



We will seek to undertake design and implementation testing on controls in respect of our identified significant risk areas.

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. Where we are unable to rely on controls, we may use a lower level of performance materiality.

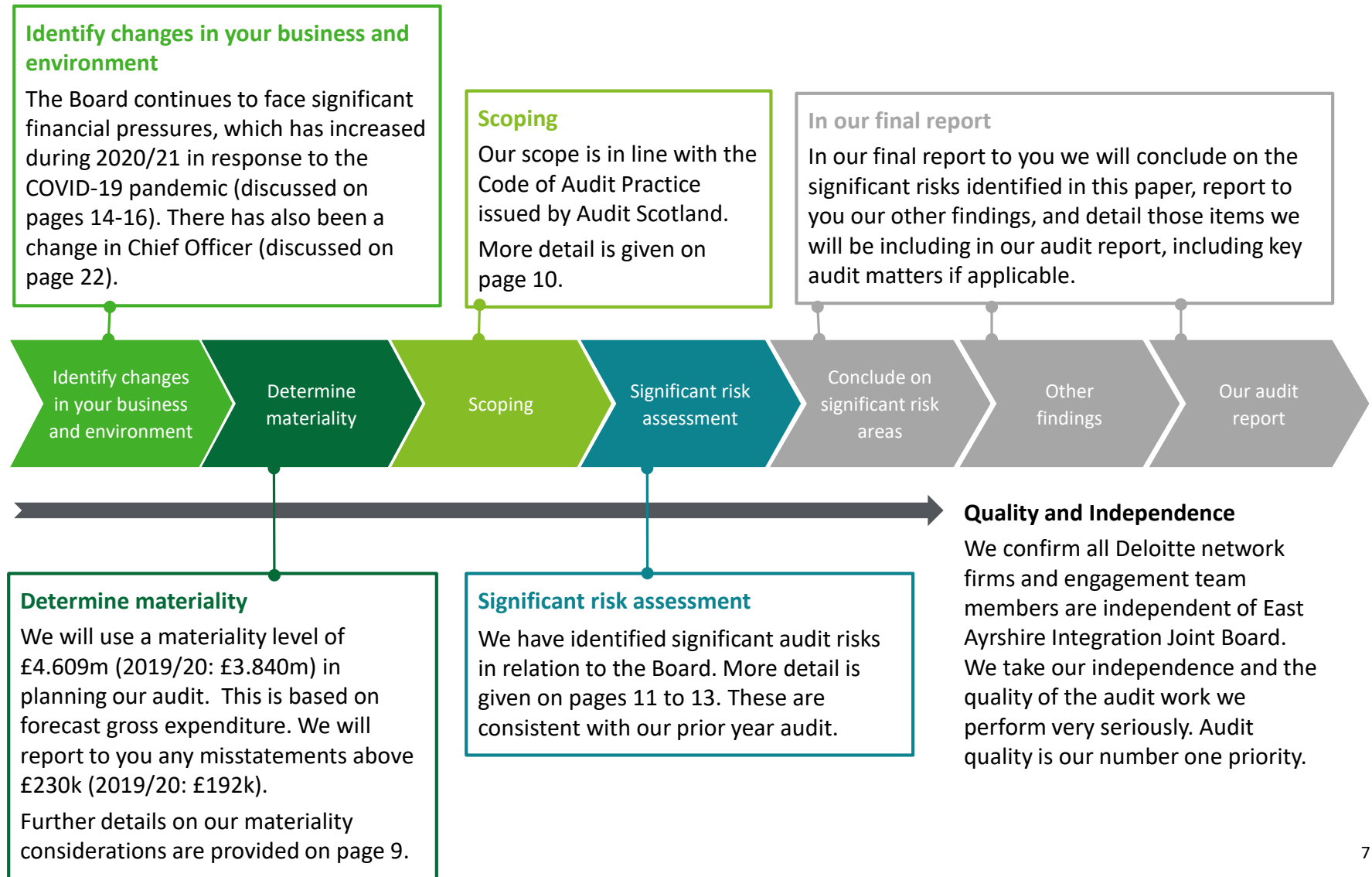
Responsibilities of the Audit and Performance Committee

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

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

Our audit explained

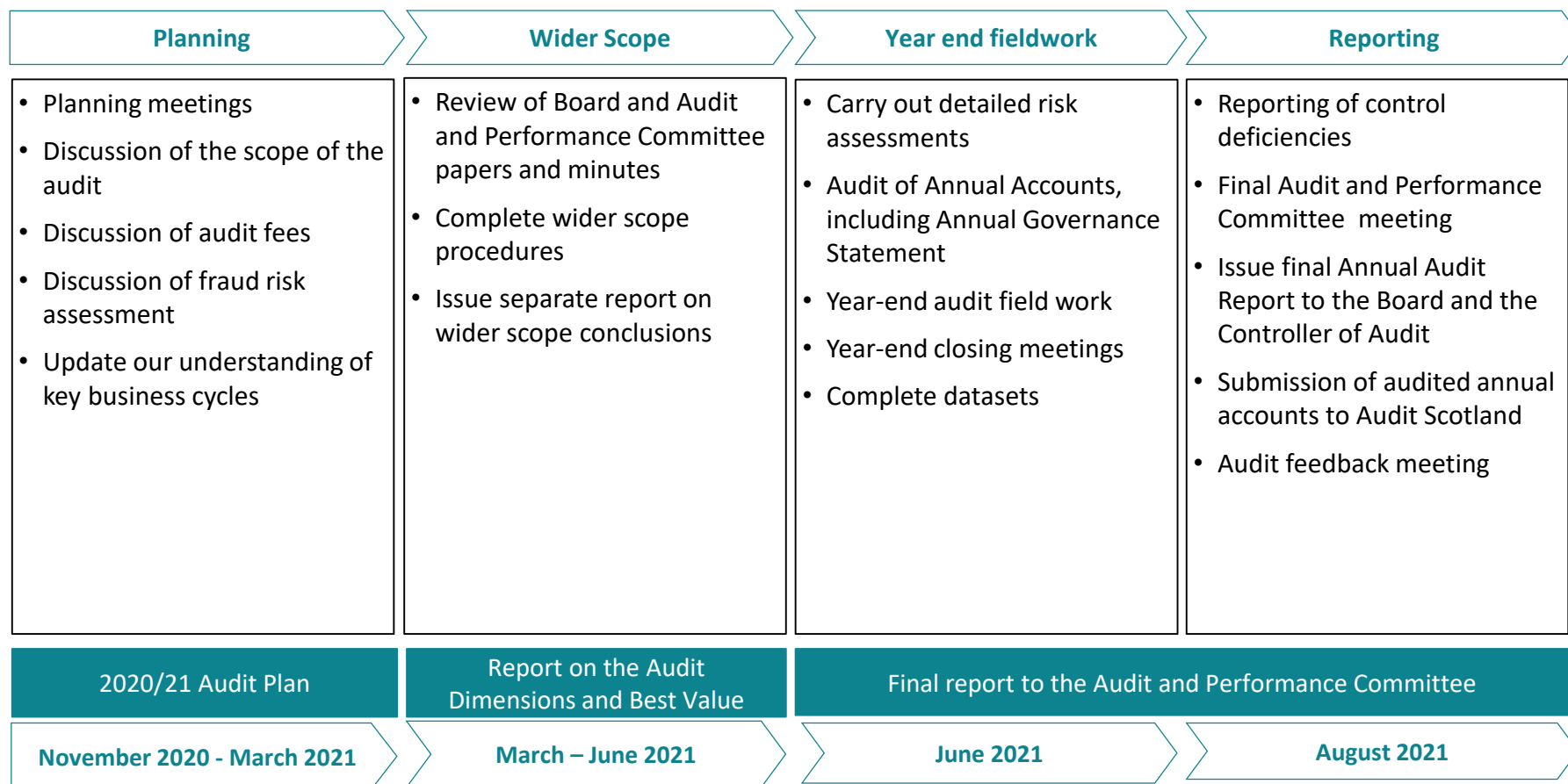
We tailor our audit to your business and your strategy



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.



Ongoing communication and feedback

Materiality

Our approach to materiality

Basis of our materiality benchmark

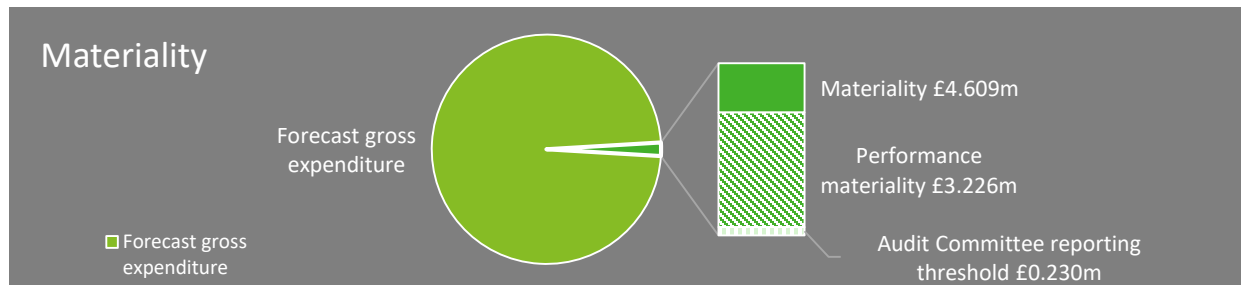
- The Audit Director has determined materiality as £4.609m (2019/20: £3.840m) and performance materiality as £3.226m (2019/20: £3.072m), based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the annual accounts.
- We have used 1.8% of forecast gross expenditure as the benchmark for determining materiality and applied 70% as performance materiality. We have judged expenditure to be the most relevant measure for the users of the accounts.
- The approach is consistent with previous years. However, the percentages applied have been revisited to take into account our knowledge of the Board and our understanding of the control environment, including the increased fraud risks as a result of the pandemic.
- We will report to you misstatements below this threshold if we consider them to be material by nature.
- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to the Audit and Performance Committee must not exceed £0.250m.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £0.230m (2019/20: £0.192m).
- Report the materiality benchmark applied in the audit of the Board;
- Provide comparative data and explain any changes in materiality compared to prior year;
- Explain any normalised or adjusted benchmarks we use; and
- Explain the concept of performance materiality and state what percentage of materiality we used, with our rationale.

Our Annual Audit Report

We will:



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





Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Core audit work	Planned output	Timeline
1. Auditing the annual accounts	Annual Audit Plan	9 March 2021
	Independent auditor's report	25 August 2021
2. Audit dimensions	Annual Audit Plan	9 March 2021
	Report on the audit dimensions and best value	1 June 2021
	Annual Audit Report	25 August 2021
3. Contributing to performance audits	Dataset for overview report	March 2021 (submission deadline 8 May 2021)
4. Other wider scope audit work	Current issues returns	15 January, 26 March, 23 July and 22 October 2021
	Fraud Returns	Quarterly (30 November 2020, 28 February 2021, 31 May 2021 and 31 August 2021)

Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Level of management judgement	Page no
Completeness and accuracy of income				12
Management override of controls				13

Level of management judgement



High degree of management judgement



Some degree of management judgement



Limited management judgement

Controls approach adopted



Assess design & implementation

Significant risks (continued)

Completeness and accuracy of income



Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in income recognition, evaluate which types of income, income transactions or assertions give rise to such risks.

The main components of income for the Board are contributions from its funding partners, namely East Ayrshire Council and NHS Ayrshire and Arran. The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from the Health Board and the Council. Whilst the Board is projecting a year-end underspend against budget in relation to directly managed services, there remains a risk associated with the additional COVID-19 expenditure and associated funding.



Deloitte response and challenge

We will perform the following:

- assess the design and implementation of the controls around recognition of income;
- test the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process;
- test the reconciliations performed by the Board at 31 March 2021 to confirm all income is correctly recorded in the ledger; and
- confirm that the reconciliations performed during 2020/21 have been reviewed on a regular basis.

Significant risks (continued)

Management override of controls



Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent annual accounts by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the annual accounts and accounting records.



Deloitte response and challenge

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the annual accounts. In designing and performing audit procedures for such tests, we plan to:

- Test the design and implementation of controls over journal entry processing;
- 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;
- Select journal entries and other adjustments made at the end of a reporting period; and
- Consider the need to test journal entries and other adjustments throughout the period.

Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we plan to:

- Evaluate whether the judgments and decisions made by management in making the accounting estimates included in the annual accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, we will re-evaluate the accounting estimates taken as a whole; and

For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit, we shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

Coronavirus (COVID-19) outbreak

Impact on our audit

The COVID-19 pandemic had a significant impact on the 2019/20 audit process, despite impacting relatively late in the year. We would expect there to be guidance as we approach year-end on accounting and disclosure requirements for 2020/21, where the impact has been much more extensive on all organisations.

Requirements

A key element of this will be communicating risks and governance impacts in narrative reporting, consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of COVID-19 and related uncertainties, including their impact on resilience and going concern assessments.

Entity-specific explanations of the current and expected effects of COVID-19 and the Board's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

Actions

While there may be greater clarity as we approach year-end, we would expect organisations as part of their reporting to conduct a thorough assessment of the current and potential future effects of the COVID-19 pandemic including:

- Consideration of the impact across the Board's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position;
 - The scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios); and
 - The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.
-

Coronavirus (COVID-19) outbreak (continued)

Impact on our audit (continued)

Impact on the Board and management actions	Impact on annual accounts	Impact on our audit
<p>We will consider the key impacts on the Board such as:</p> <ul style="list-style-type: none">• Interruptions to service provision• Supply chain disruptions• Unavailability of personnel• Increased income	<p>We have considered the impact of the outbreak on the annual accounts, discussed further on the next slide including:</p> <ul style="list-style-type: none">• Narrative reporting, including disclosures on financial sustainability• Principal risk disclosures• Events after the reporting period and relevant disclosure	<p>We will continue to assess the impact on the audit including:</p> <ul style="list-style-type: none">• Resource planning• Timetable of the audit• Impact on our risk assessment• Logistics including meetings with entity personnel

Impact on annual accounts	
Narrative and other reporting issues	<p>The following areas will need to be considered by the Board:</p> <ul style="list-style-type: none">• Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability.• Reporting judgements and estimation uncertainty, the Board will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.

Coronavirus (COVID-19) outbreak (continued)

Impact on our audit (continued)

Impact on annual accounts

Going concern assessment

The annual accounts should include disclosure on the basis of the Board's going concern assessment, including related uncertainties.

The Board also needs to report on the impact of financial pressures and its financial sustainability in the narrative report, as well as any relevant liquidity reporting requirements under IFRS 7 Financial Instruments: Disclosures.

Events after the reporting period and relevant disclosures

Events are likely to continue to move swiftly, and the Board will need to consider the events after the reporting period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis.

Reporting hot topics

Increased focus on quality reporting



Deloitte view

The expectations of corporate reporting, reflected in the Financial Reporting Council's ('the FRC') monitoring and enforcement priorities, are increasing. While the focus is primarily on corporate entities, we highlight these areas where improved disclosures would help meet stakeholder expectations.



The potential impacts of Brexit

Depending upon events, organisations may be preparing annual reports against the backdrop of continued uncertainty around the UK's future relationship with the EU. Even with a deal agreed, the future basis of UK-EU trade will affect the longer-term viability period of 3-5 years and a longer consideration of prospects.

ACTION: Depending upon events through to the date of signing, we would expect to see annual reports reflecting at least:

- relevant risks and uncertainties, and actions taken to manage those risks; and
- consideration of whether there is any impact on critical accounting judgements and areas of estimation uncertainty.

We will discuss with the Board closer to the time areas where disclosures may be appropriate.



Climate-related risks

The report by the Intergovernmental Panel on Climate Change (IPCC) has made it clear that prompt and decisive action on climate change is required from governments, businesses and individuals alike.

The recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD) are gaining momentum. The government has proposed mandatory TCFD disclosures by 2022, and the FRC is undertaking a major review of how organisations assess and report the impact of climate change. The FRC expects organisations to disclose how they have taken climate change into account in assessing the resilience of the business model, its risks, uncertainties and viability both in immediate and longer term.

Investors are challenging companies that are not factoring the effects of the Paris Climate Agreement into their critical accounting judgements and are not disclosing comprehensively these judgements, assumptions, sensitivities and uncertainties.

ACTION: Clearly articulate how your organisation is addressing climate change e.g.

- whether this is a principal risk and how it is being managed; and
- its impact on the business model, the viability statement and the key assumptions and projections in impairment reviews and valuations (including in assessing remaining asset lives).

Revisions to auditing standards coming into effect

ISA (UK) 570 – Going concern

The FRC issued a revised going concern standard in September 2019, that takes effect for periods commencing on or after 15 December 2019. For public sector bodies, this will be March 2021 year ends and later.

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

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

The key changes affect:

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

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

FRC's press release, 30 September 2019

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 local government sector and elsewhere to provide robust challenge to management.

We have obtained a deep understanding of your business, its environment and of your processes in income and expenditure recognition enabling us to develop a risk-focused approach tailored to the Board.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge.

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 (Audit Director) and other sector experts. This includes sector specific matters and audit methodology updates.



Engagement Quality Control Review

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.

Wider scope requirements

Overview

The Code of Audit Practice sets out four audit dimensions that frame the wider scope of the audit of the accounts. The audit dimensions provide a common framework for all the audit work conducted for the Auditor General and for the Accounts Commission.

In carrying out our annual risk assessment, we have considered the arrangements in place, building on our findings and conclusions from previous year's audits as well as planning guidance published by Audit Scotland. The following pages summarise the significant risks identified and our planned audit response.

The risk profile of public bodies for the 2020/21 audits is significantly affected by the COVID-19 pandemic. The pandemic has highlighted the importance of many long-standing issues that auditors across the public sector have previously reported on, such as the need for good governance, openness and transparency and effective longer-term planning to deliver better outcomes. The risks and challenges associated with these issues have become greater due to the pandemic. Audit Scotland's COVID-19 Guide for Audit and Risk Committees https://www.audit-scotland.gov.uk/uploads/docs/report/2020/as_200825_covid19_guide_audit_risk_comm.pdf set out the key short term risks and challenges facing public bodies. They are heightened further because of the uncertainty around the UK's exit from the European Union and increasing budget pressures.

In accordance with Audit Scotland planning guidance, in assessing risks in 2020/21, and in order to deliver a high quality audit, we have focused on risks related to governance and transparency, financial sustainability, and counter-fraud arrangements.

Considering Best Value arrangements

We have a duty to be satisfied that local government bodies have made proper arrangements for securing BV.

We will consider how the Board demonstrates that it is meeting its BV responsibilities, and report on the Board's arrangements for doing this. Our work on the audit dimensions discussed on pages 21 to 24 will contribute to this consideration. No detailed work against the BV themes will be carried out.

Other areas

We are required to also carry out the following areas of work:

- Preliminary enquiries on all correspondence received; and
- Submission of fraud returns.

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Significant risks identified	Planned audit response
Financial sustainability	<p>The forecast additional cost of the pandemic is currently £11.276m which includes £0.770m of savings delays. The Board is currently projecting an overspend of £2.236m against these costs, as the Scottish Government has yet to confirm funding for the full year. This overspend is being offset by underspends in other areas, resulting in a net underspend being projected of £2.236m. It has since been confirmed that Covid-19 attributable costs will be fully funded in 2020/21.</p> <p>As reported in our 2019/20 annual audit report, the Board is still faced with significant financial challenges in the medium to longer term. A comprehensive review of the Medium Term Financial Plan is due to be carried out in 2021.</p> <p>There therefore remains a significant risk that robust medium to long term planning arrangements are not in place to ensure that the Board can manage its finances sustainably and deliver services effectively, identify issues and challenges early and act on them promptly.</p>	<p>We will assess the progress being made in developing and implementing the updated medium term financial plan and associated transformation programmes.</p> <p>We will also consider the work that the Board has done to review the lessons learned from its response to the pandemic and how this experience will inform the transformation agenda for future years.</p>
Financial management	<p>We have not identified any significant risks in relation to financial management during our planning.</p> <p>Since the start of the pandemic, the risk of fraud and error has increased as the control environment and internal control change. In accordance with Audit Scotland planning guidance, we will consider fraud as a particular focus area in 2020/21.</p>	<p>We will continue to review the financial management arrangements.</p> <p>Using Audit Scotland's publication "COVID-19 Emerging Fraud Risks", we will assess what action the Board has taken to minimise risk to its control environment and internal controls.</p>

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Significant risks identified	Planned audit response
Governance and transparency	<p>Following the changes made to the governance arrangements in response to the pandemic, including the use of teleconferencing rather than face to face meetings, there is a risk that revised arrangements are not appropriate or operating effectively. Audit and Performance Committee and Board meetings resumed in June 2020. All meetings now take place through teleconferencing.</p> <p>The governance arrangements for health and social care integration is an area of particular interest to the Auditor General and Accounts Commission. There is a risk that the arrangements are not operating effectively (including services delivered by, or in partnership with, others). During 2020/21, the former Chief Officer was appointed the Chief Executive of East Ayrshire Council and recruitment is ongoing to appoint a permanent replacement. The Chief Finance Officer has been appointed as interim Chief Officer until a permanent replacement is appointed.</p>	<p>We will review the work of the Board and its Committees to assess whether the arrangements are operating effectively, including assessing whether there is effective scrutiny, challenge and informed decision making.</p> <p>We will also continue to review the governance arrangements for the Board, particularly focusing on how the partnerships have responded to the pandemic. As part of this, we will monitor the recruitment process for the Chief Officer and handover arrangements in place.</p> <p>We will review the work undertaken in relation to risk management including updates to the policies in place as a result of COVID-19 and whether these are appropriate for the long-term.</p>
	<p>While risk management processes continue to be in place, the likelihood and impact of existing risks and the emergence of new risks will need to be monitored carefully. There is a risk that officers and Committee members have not considered how sustainable any changes to the risk appetite will be in the longer term.</p>	

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Significant risks identified	Planned audit response
Value for money	<p>The pandemic is expected to have had a substantial impact on performance measures, particularly for services which have been temporarily suspended, are or a reduced level or have had to adapt to new ways of working. The pandemic has had a significant impact on the Board's operations, in particular it has resulted in the under-occupancy of care homes and cancellation of certain services, for example dental services in the first part of the year.</p> <p>Performance reporting to the Board has continued with the annual performance for 2019/20 reported at the August 2020 Board meeting. However, in large, resources have been primarily focused on managing COVID-19 with no in-year reporting of 2020/21 performance to the Board or Audit and Performance Committee. There is a risk that performance reporting has not been timely, reliable, balanced, transparent and appropriate to users' needs.</p>	<p>We will review the performance reports presented to the Board to assess the extent of openness and transparency during the year.</p>

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 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

Use of this report

This report has been prepared for the Audit and Performance Committee, 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.

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 Board.

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 annual accounts 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.

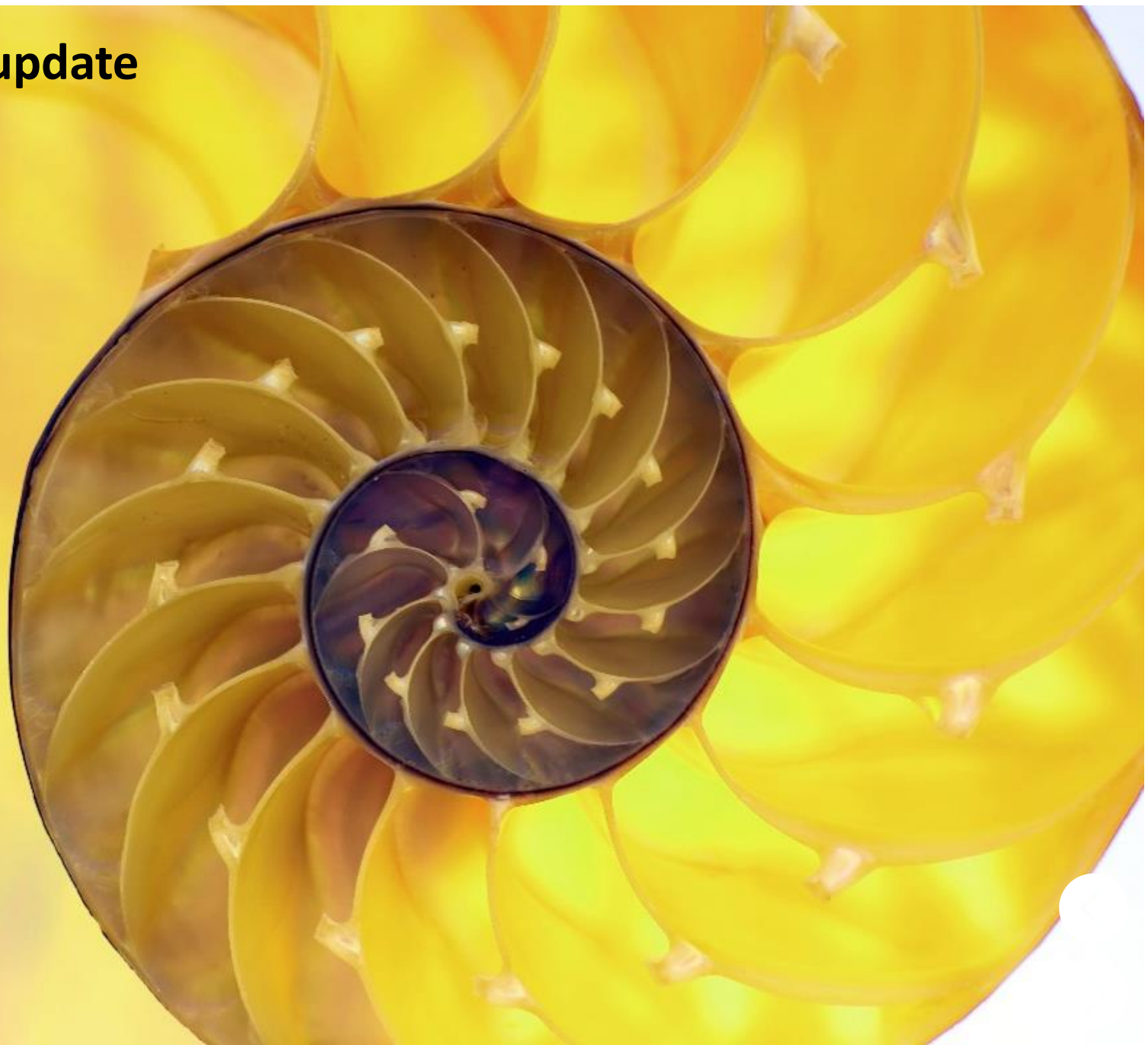


Pat Kenny

for and on behalf of Deloitte LLP

Glasgow | 3 March 2021

Technical update



What does climate change mean for business?

New website – learning, interviews and resources

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events.

Discover how to think through the challenges and futureproof your business.

The time to act is now!

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What does climate change mean for business?

Understanding the role of finance professionals

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events. These effects are now compounded by the accelerating pace of policy and regulatory change as humanity recognises the challenge we face and the drastic and rapid actions we all must take in order to protect our planet and our own livelihoods.

Discover how to think through the challenges and futureproof your business through [learning](#), [interviews](#) and [resources](#).

The time to act is now!

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Changes to the Code of Practice on Local Authority Accounting

2020/21

Background

The accounting code has been issued by the CIPFA/ LASAAC Local Authority Code Board and its financial reporting framework is based on International Financial Reporting Standards (IFRS) as adopted by the European Union, adapted for the local government context where necessary.

The 2020/21 accounting code has been prepared on the basis of accounting standards and other pronouncements in effect for accounting periods commencing on or before 1 January 2020.

The changes in the 2020/21 accounting code are summarised in the Foreword. The most significant changes impacting the Board are:

- ***The total line in the Comprehensive Income and Expenditure Statement*** – the line description used now needs to provide clarity regarding the use of positive and negative signage. For example, where brackets are used to represent an overall surplus the description “Total comprehensive (income) and expenditure” may be used.
- ***Amendments to reflect changes to the definition of material in IAS 8*** – it now states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that users make on the basis of those annual accounts.

Next steps

We recommend that management review the changes to the accounting code at the earliest opportunity. We are happy to have early discussion on this to agree and apply the required changes.

The State of the State 2020-21

Government in the pandemic and beyond

Background and overview

Now in its ninth year, this report brings together Deloitte and Reform to reflect on new research into the issues facing government and public sector across the UK. This year, that research focuses on the impact of the coronavirus pandemic both on the public sector and the public it services. It comes as all nations of the UK faces new lockdown measures designed to reduce transmission, manage demand on health services and ultimately saving lives.

At the heart of the report is our exclusive citizen survey, which offers insight into perceptions of public services and public spending beyond COVID-19, as well as a public perspective on the government's 'levelling up' agenda.

That survey is complemented by our interviews with public sector leaders. This year, we spoke to 40 senior figures in government and public services, producing the most extensive qualitative research of its kind.

Next steps

A summary of the key conclusions are provided on the next page. The full report is available at <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/public-sector/deloitte-uk-state-of-the-state-2020.pdf>



The State of the State 2020-21 (continued)

Government in the pandemic and beyond (continued)

The state according to the public

A survey of more than 5,000 members of the public shows how people feel about tax, spending and public service priorities amid the COVID-19 pandemic. We also explore attitudes towards data sharing with and across government, and unpick what the public across each nation and region wants to see levelled up

58% of the public believe opportunities for young people will be worse as a result of coronavirus.

42% of the public believe that community spirit will have improved after the pandemic



The state according to the people who run it

Over 40 senior public sector figures in England, Scotland, Wales and Northern Ireland talked with us about the issues that matter to them. We explore their views on the legacy of COVID-19, levelling up, EU Exit and creating a data-driven government.

Our interviews of **40** senior public sector figures found that many want to retain the agility of new ways of working however, many sense a gravitational pull back to normality.

Fast forward to the past

Is automation making organisations less diverse?

Background and overview

Robotics and intelligent automation are in the process of transforming the nature of work and the skills required to do it. Whilst there is a clear risk of reinforcing structural inequalities there is also an opportunity to address diversity issues within automation programmes to ensure public sector organisations can capitalise on the benefits that both automation and diversity bring to business outcomes.

For many public sector organisations implementing automation whilst considering diversity is new and uncharted territory. We would like to encourage our public sector clients to consider and discuss this crucial issue.

Based on exclusive client interviews, insight from public sector projects and extensive desk research, our report explores the potential risks of not considering the implications of automation on workforce diversity and inequality. It also identifies the barriers to embedding diversity in automation programmes.

The report provides a practical four stage framework to integrate diverse groups to not only survive but thrive in a new automated and digital world.

Next steps

The full report is available at <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/public-sector/deloitte-uk-diversity-and-automation-brochure-landscape.pdf>



The future unmasked

Predicting the future of healthcare and life science in 2025

Background and overview

What does the future hold for the life sciences and healthcare industry? Our latest predictions report looks ahead to the year 2025 to help you see what's coming and to keep your organisation moving forward.

Each prediction is brought to life through snapshots of how patients, healthcare and life science companies and their staff might behave and operate in this new world. We explore the major trends and the key constraints to be overcome; and identify the evidence today to predict how near that future might be.

This year, inevitably, our predictions have been informed by the unparalleled impact of the COVID-19 pandemic on society in general and more specifically on how people perceive health risks. We have seen a new public appreciation of the contribution that healthcare and life sciences companies are making to each country's response and how these companies are paving the way for a new era of collaboration to identify and implement solutions. A key stand out has been the huge acceleration in the pace and scale of technology-enabled transformation across the whole health ecosystem.



Next steps

Explore the individual predictions or download the full series below to learn more <https://www2.deloitte.com/uk/en/pages/life-sciences-and-healthcare/articles/life-sciences-and-health-care-predictions.html>

Appendices



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 annual accounts 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 relation to completeness and accuracy of income, and management override of controls.
- We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

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



Fraud Characteristics:

- Misstatements in the annual accounts 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 annual accounts is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Our other responsibilities explained (continued)

Fraud responsibilities (continued)

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



Management:

- Management's assessment of the risk that the annual accounts 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 Chief Officer.



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 the Board and will reconfirm our independence and objectivity to the Audit and Performance Committee for the year ending 31 March 2021 in our final report to the Audit and Performance Committee.

Fees

The fee range for the 2020/21 audit will be provided by Audit Scotland in December 2020 will be discussed and agreed with management and the Audit Committee in early 2021.

There are no non-audit services fees proposed for the period.



Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company'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 the Board, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Our approach to quality

AQR team report and findings

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

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

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

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

actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS 9 expected credit loss audit programme and our Audit and Performance Committee reporting.

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

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



Our approach to quality (continued)

AQR team report and findings (continued)

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

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

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

"Our key findings related principally to the need to:

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

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





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