



South Ayrshire Council

Planning report to the Audit and Governance Panel on the 2021/22 audit

Issued on 8 March for the meeting on 16 March 2022

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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 Report and 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 Governance Panel ('the Panel') of South Ayrshire Council ("the Council") for the 2021/22 audit. I would like to draw your attention to the key messages of this paper:

Audit plan

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

Key risks

We have taken an initial view as to the significant audit risks the Council 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 audit dimension significant risks are presented on pages 24 to 27.

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 pages 28 to 30.

Introduction (continued)

The key messages in this report (continued)

Regulatory change

IFRS 16, Leases, comes into effect on 1 April 2022, therefore will be first implemented in financial year 2022/23. This will require adjustments to recognise on balance sheet arrangements currently treated as operating leases. Further details are provided on page 33 and as part of the 2021/22 audit, we will evaluate the adequacy of the arrangements in place for compliance with the new standard.

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.

Managing transition to 2022/23 audits

2021/22 is the final year of the current audit appointments. We will minimise disruption to all parties, and maximise the transfer of knowledge of the Council, by working in partnership with Audit Scotland and the incoming auditors.

Added value

Our aim is to add value to the Council 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 Council 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 34 to 36 of this plan.

Pat Kenny
Audit Director

Responsibilities of the Audit and Governance Panel

Helping you fulfil your responsibilities

Why do we interact with the Audit and Governance Panel?

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 Governance Panel has significantly expanded. We set out here a summary of the core areas of Audit and Governance Panel 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 Governance Panel 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

Whistle-blowing and fraud

- 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 Council, provide advice in respect of the fair, balanced and understandable statement.

- Review the internal control and risk management systems (unless expressly addressed by separate risk Panel).

- 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.

- Consider annually whether the scope of the internal audit programme is adequate.

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

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



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 the Annual Report and Accounts that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Audit and Governance Panel

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

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

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. In accordance with recent revisions to ISAs, we will assess inherent risk and control risk associated with accounting estimates.

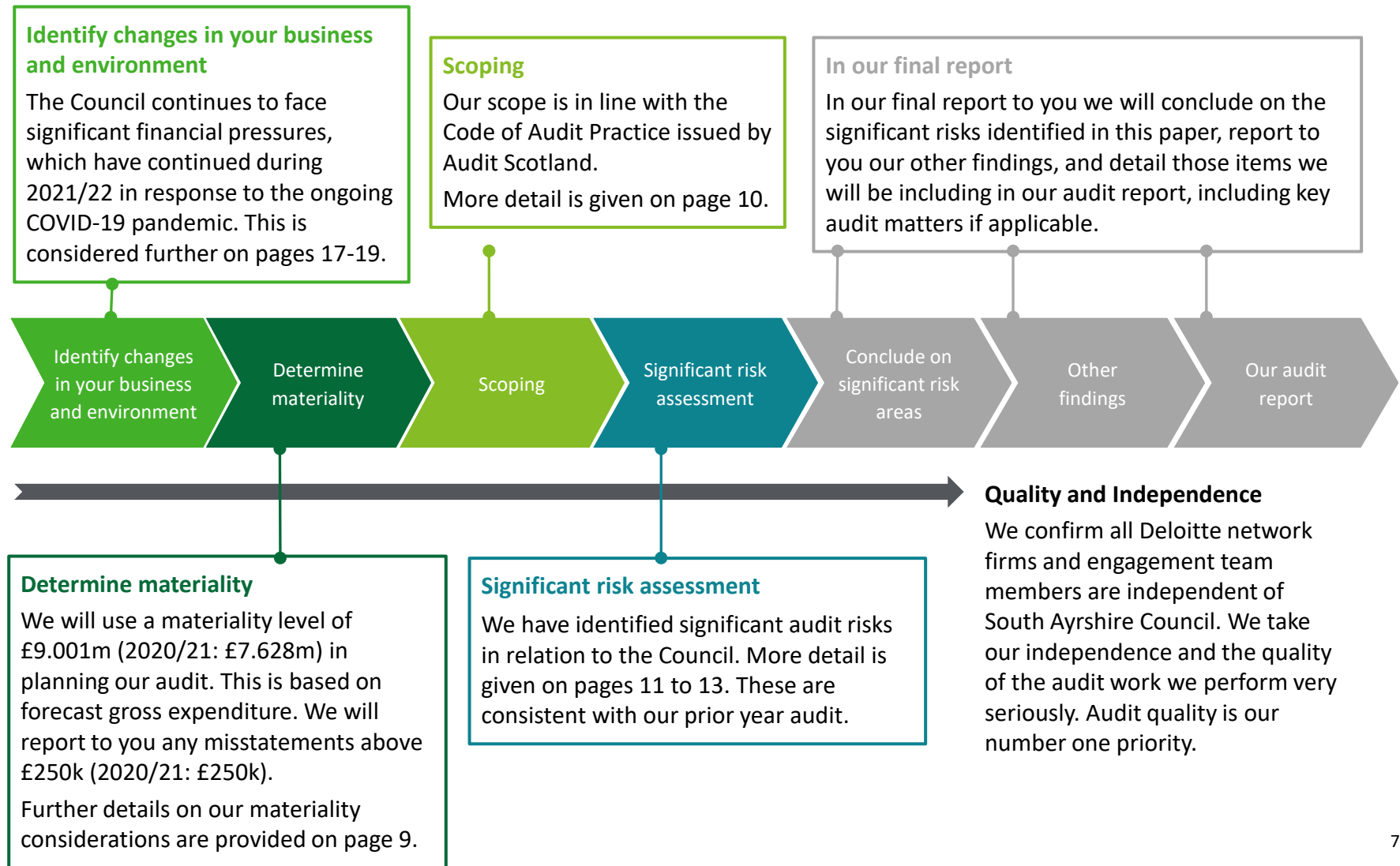
Performance materiality



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.

Our audit explained

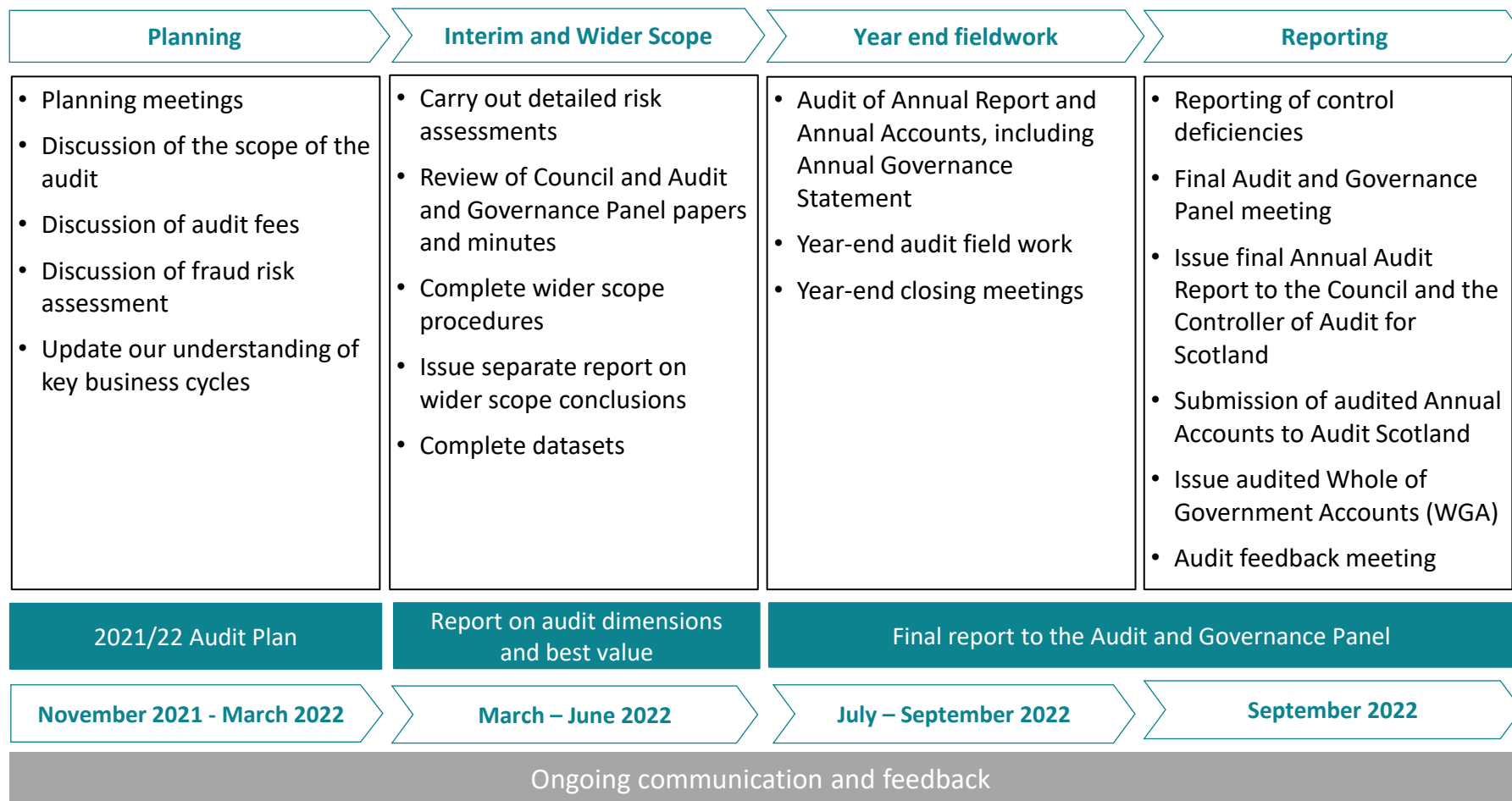
We tailor our audit to your business and your strategy



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.



Materiality

Our approach to materiality

Basis of our materiality benchmark

- The Audit Director has determined materiality for the group as £9.001m (2020/21: £7.628m) and performance materiality as £6.300m (2020/21: £5.339m), based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the Annual Report and Accounts.
- We have used 1.8% of forecast gross expenditure as the benchmark for determining materiality (2020/21: 1.8%) and applied 70% (2020/21: 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.
- For the audit of South Ayrshire Council (Council only), a materiality of £8.55m (2020/21: £7.246m) and performance materiality of £5.985m (2020/21: £5.072m) have been determined.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £250k (2020/21: £250k).
- 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 Governance Panel must not exceed £250k.

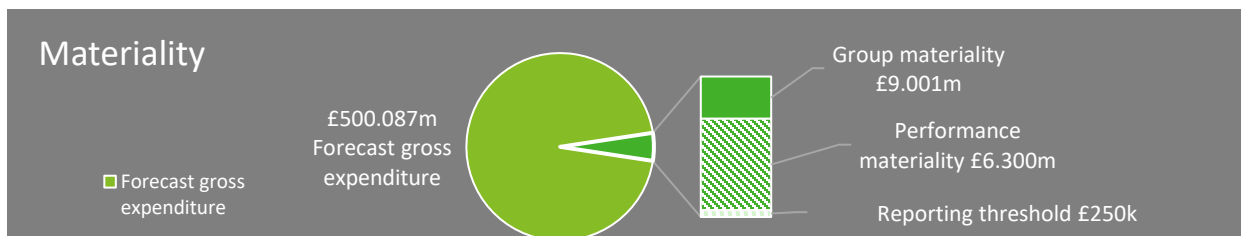
Our Annual Audit Report

We will:

- Report group materiality, Council only materiality and the range we use for component materialities;
- 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.

Group scoping

The significant components for the group comprise South Ayrshire Council and South Ayrshire IJB. Full audit procedures will be performed on each entity. All non-significant components will be covered by desktop reviews at the group level.



Although materiality is the judgement of the Audit Director, the Audit and Governance Panel 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	Proposed reporting timeline to the Panel	Audit Scotland/ statutory deadline
1. Auditing the annual accounts	Annual Audit Plan	16 March 2022	31 March 2022
	Independent auditor's report	28 September 2022	31 October 2022
2. Audit dimensions	Annual Audit Plan	16 March 2022	31 March 2022
	Wider Scope Report	29 June 2022	N/A
	Annual Audit Report	28 September 2022	31 October 2022
3. Contributing to performance audits	Dataset for overview report	N/A	Available in March 2022 (submission deadline TBC)
4. Other wider scope audit work	Fraud Returns	N/A	30 Nov 2021*, 28 Feb 2022 *, 31 May 2022, 31 Aug 2022
	Current issues returns	N/A	21 Jan 2022*, 22 Apr 2022, 22 Jul 2022 21 Oct 2022
	National Fraud Initiative (NFI) audit questionnaire	N/A	28 February 2022
	Best Value Return	N/A	30 June 2022
	Assurance Statement on Whole of Government Accounts (WGA) return	N/A	TBC
	Certify grant claims (Housing Benefit and Non-Domestic Rates)	N/A	TBC

* All returns have been submitted in accordance with the Audit Scotland / statutory deadlines.

Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Level of management judgement	Page no
Management override of controls				12
Recognition of COVID-19 related income				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

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 Report and 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 Report and 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 Report and 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 Report and 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
- Perform a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

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.

Significant risks (continued)

Recognition of COVID-19 related income



Risk identified and key judgements

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 revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2021/22 in response to the COVID-19 pandemic, there is no significant risk of fraud.

During 2021/22, the Council has received additional funding in relation to COVID-19 mobilisation costs, although all funding has not yet been confirmed. In addition, there are a number of business support schemes designed to help eligible businesses during the COVID-19 pandemic that are being administered by Councils on behalf of the Scottish Government.

We have pinpointed the significant risk to the completeness and occurrence of the funding for COVID-19 mobilisation costs and the completeness and accuracy of the agency arrangement disclosures.

The key judgements for management are assessing:

- Any conditions associated with the mobilisation cost funding; and
- Whether the Council is acting as a principal or agent in administering the business support schemes.



Deloitte response and challenge

We will perform the following:

- Assess the design and implementation of the controls in relation to the accounting treatment of all COVID-19 related funding;
- Test a sample of funding for COVID-19 mobilisation costs and confirm these have been recognised in accordance with any conditions applicable;
- Test the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as an agent, that:
 - Transactions have been excluded from the Comprehensive Income and Expenditure Statement;
 - The Balance Sheet reflects the debtor or creditor position at 31 March 2022 in respect of cash collected or expenditure incurred on behalf of the principal; and
 - The net cash position at 31 March 2022 is included in the financing activities in the Cash Flow Statement; and
- Test the completeness of funding recognised through agreement to Scottish Government Finance Circular.

Other areas of focus

Expenditure recognition



Risk identified and key judgements

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, as discussed further on page 13, 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 have considered this risk for the Council and concluded that we are satisfied that the control environment is strong and there is no history of errors or audit adjustments. This has therefore not been assessed as a significant risk area, but will continue to be an area of audit focus in line with Practice Note 10.



Deloitte response and challenge

We will perform the following procedures to address the risk:

- Detailed analytical procedures on all invoices processed in the year to assess the risk of a material misstatement; and
- Testing of creditors balances at the year-end to assess completeness of expenditure.

Other areas of focus (continued)

Pension liability



Risk identified and key judgements

The Council participates in two defined benefits schemes:

- Scottish Teachers' Superannuation Scheme, administered by the Scottish Government; and
- The Strathclyde Pension Fund, administered by Glasgow City Council.

The net pension liability increased from £94.090m in 2019/20 to £117.523 in 2020/21. The increase was combination of an increase in the fair value of the assets and an increase in the liabilities as a result of demographic changes and financial assumptions. The liability also continues to be affected by the McCloud and Goodwin legal cases.

Hymans Robertson LLP are the Council's appointed actuary, who produce a detailed report outlining the estimated liability at the year-end along with the associated disclosure requirements.

The pension liability valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability. The valuations are prepared by a reputable actuary using standard methodologies which have been considered as appropriate in previous years and no significant changes in the membership of the scheme or accrued benefits are expected in the current year. As a result, we have not identified this as a significant risk.



Deloitte response and challenge

We will perform the following procedures to address the risk:

- Assess the independence and expertise of the actuary supporting the basis of reliance upon their work;
- review and challenge the assumptions made by Hymans Robertson;
- Obtain assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- Assess the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund annual accounts;
- Review and challenge the calculation of the impact of the McCloud and Goodwin cases on pension liabilities; and
- Review the disclosures within the accounts against the Code.

Other areas of focus (continued)

Severance payments and additional responsibility allowances



Risk identified and key judgements

As part of our planning work, we have been made aware of potential issues relating to severance payments and additional responsibility allowances that have been made to Council employees who have since retired. We have carried out some preliminary investigation work and the outcome of which will be reported in our annual audit report to the Panel in September 2022 in accordance with guidance received from Audit Scotland. As a result of this preliminary audit work undertaken, the following risks have been identified which will be a key area of focus during the audit of the Annual Report and Accounts:

- There is a risk that additional responsibility allowances and changes in working patterns have been approved without a robust business case, taking into account value for money; and
- In approving additional responsibility allowances or changes to working patterns in a period before retirement, the financial implications for both the Council and the Pension Fund, have not been fully considered.



Deloitte response and challenge

We will perform the following procedures to address the risk:

- Review the outcome of any internal audit work being performed in the year in relation to severance payments and additional responsibility allowances;
- Consider the Council's current processes for approving additional responsibility allowances, changes to working patterns prior to retirement and severance payments to assess whether they are fit for purpose;
- Perform detailed sample testing of severance payments made during the year, as disclosed within the Remuneration Report; and
- Perform focussed testing of additional responsibility allowances awarded during the year to assess whether they are supported by a clear business case.

Our conclusions from this work will be considered as part of our wider audit dimensions work on value for money.

Coronavirus (COVID-19) outbreak

Impact on our audit

The COVID-19 pandemic had a significant impact on the 2019/20 and 2020/21 audit process.

Requirements

A key element of the reporting requirements for the Council, which will continue for 2021/22, is 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 Council'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

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 Council'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 Council and management actions	Impact on Annual Report and Accounts	Impact on our audit
<p>We will consider the key impacts on the Council such as:</p> <ul style="list-style-type: none">• Interruptions to service provision• Supply chain disruptions• Unavailability of personnel• Reduction in service income	<p>We will consider the impact of the outbreak on the Annual Report and 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• Impact on property, plant and equipment valuations• Impairment of non-current assets• Allowance for expected credit losses• 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 Report and Accounts

Impact on Property, Plant and Equipment

The Royal Institute of Chartered Surveyors issued a practice alert, as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This practice alert was withdrawn in September 2020. Valuation reports at March 2020 typically identified a need to consider potential impairments in future periods, and this year's valuations may reflect more significant movements.

The Council will need to consider the approach to its valuation (including any changes as a result of the pandemic and consequent service and organisational changes on the "modern equivalent asset" assumed in valuations). Councils will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2022.

Coronavirus (COVID-19) outbreak (continued)

Impact on our audit (continued)

Impact on Annual Report and Accounts

Expected credit losses

While most debtors are with public sector entities (where significant changes in recoverability are not expected), for non-public sector debtors, the Council will need to consider the level of provision required for expected credit losses under IFRS 9.

Narrative and other reporting issues

The following areas will need to be considered by the Council:

- 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 Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.

Going concern assessment

The Annual Report and Accounts should include disclosure on the basis of the Council's going concern assessment, including related uncertainties.

The Council 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 Council 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 ongoing uncertainty about the UK's future relationship with the EU

The UK-EU Trade and Cooperation Agreement (the 'Deal') agreed on 24 December 2020 has brought certainty and clarification about many (but importantly not all) of the changes arising from the UK's departure from the EU. Councils should update their assessments of the impact of Brexit on their operations and business model, and on the Annual Report and Accounts (both the recognition and measurement of assets and liabilities and the related disclosures).

Clear disclosure should be provided of the key assumptions used in cash flow forecasts and the significant judgements and estimates made in recognising and measuring the amounts in the Annual Report and Accounts.

ACTION: Depending upon events through to the date of signing, we would expect to see Annual Report and Accounts 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 Council closer to the time areas where disclosures may be appropriate.

Reporting hot topics (continued)

Increased focus on quality reporting



Climate-related risks

The PRI and other investors groups have published an open letter confirming their view that climate-related risks are material factors that should be reflected appropriately in Annual Report and Accounts statements. The IIGCC has also published a report reiterating their expectations for the Paris Agreement to be considered in drawing up accounts.

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.

In November 2020, the FRC published its review of climate-related considerations which includes the FRC's expectations of companies, financial statements and auditors. The FRC highlights that "the implications of climate change will affect a wide range of companies. In developing a company's strategic direction, Councils "should be taking into account all the possible effects of climate change" and that "corporate reporting should address the company's impact on the environment, the resilience of its business model and the impact of climate change on its financial statements." The [FRC's year-end letter to CEOs, CFOs and Audit and Governance Panel Chairs](#) highlights that "users expect companies to provide full information about the future impact of climate change on the business and how the company's activities affect the environment" and that financial statements should explain the impact of climate-related risks, policies and strategies on measurement and disclosure.

The path to mandatory TCFD reporting is also clear:

- TCFD disclosures are required under a new listing rule for all premium listed companies, initially, on a comply or explain basis **from 1 January 2021**;
- The UK Government has published a consultation on requiring mandatory climate-related disclosures for publicly quoted companies, large private companies and LLPs in line with the four pillars of TCFD and its roadmap towards mandatory climate-related disclosures across the economy by 2025; and
- The European Commission (EC) has published proposals for a Corporate Sustainability Reporting Directive (CSRD) that would make sustainability reporting mandatory for all EU listed and large companies. The EU has stated that its approach to standard-setting should take account of existing standards and frameworks, including TCFD. TCFD is already included in voluntary guidance on the Non-Financial Reporting Directive.

ACTION: Climate change is a strategic issue and should be on the Council agenda. We therefore expect the narrative within the Annual Report and Accounts to include the following:

- An explanation of how climate change is assessed as a strategic issue
- Clarity of whether climate change represents a principal or emerging risk and how it is being managed
- If climate-related targets or metrics are disclosed, an explanation of how those targets or metrics fit into strategic targets/ approach.
- An assessment of the readiness to make disclosures in line with the four areas recommended by the TCFD.

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, payroll expenditure and capital expenditure enabling us to develop a risk-focused approach tailored to the Council.

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 land and buildings and our pension specialists will support the audit team in our work on the pension liability.

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 addition, the wider scope of audit in local government comprises the statutory duty of auditors to be satisfied that bodies have made proper arrangements to secure **Best Value (BV)** and to publish **statutory performance information**. The Commission also sets out five **Strategic Audit Priorities** that it expects auditors to consider in local government audits.

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



Wider scope requirements (continued)

Audit dimensions

Audit dimension	Significant risks identified	Planned audit response
Financial sustainability	<p>While the Council has historically achieved short term financial balance, there remains a risk that robust medium to long term planning arrangements are not in place to ensure that the Council can manage its finances sustainably and deliver services effectively.</p> <p>This is based on a number of factors, including:</p> <ul style="list-style-type: none">• While the Council is projecting an underspend position for 2021/22, there remains uncertainty around the progress of, and recovery from, the COVID-19 pandemic.• The cumulative funding gap over the next three years, as reporting in the updated Medium Term Financial Plan to the Leadership Panel in October 2021, ranges from £8.6m and £52.3m. In the longer term, the 10-year financial outlook has identified a cumulative funding gap of between £36.236m and £171.492m.• As reported in our previous audit reports throughout our audit appointment, and as concluded within the Best Value Audit Report ("BVAR"), the Council's approach to transformation has been slow and inconsistent lacking drive and urgency.• The meeting between the Council and the Accounts Commission to discuss the findings of the BVAR mainly focussed on the improvements required to financial planning, workforce planning and transformation. All of these issues had been previously identified in annual audit reports and recommendations made for improvement.	<p>We will assess the development of the 2022/23 budget and review the updated Medium Term Financial Plan and Long Term Financial Outlook, specifically following up on the recommendations made in our previous years report.</p> <p>We will also assess the progress being made in implementing the Strategic Change Programme, specifically following up on the recommendations made in our previous audit reports and the recommendations made in the BVAR in relation to capacity and skills, embedding workforce planning and the alignment of the transformation work with the COVID-19 recovery planning.</p>

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Significant risks identified	Planned audit response
Financial management	<p data-bbox="340 405 1203 511">In previous years we have concluded that the Council had strong financial management arrangements in place and a sufficiently qualified and experienced finance team.</p> <p data-bbox="340 558 1203 776">We did, however, recommend as part of our 2020/21 financial statements audit that management should consider the capacity within the finance team and allocation of responsibilities to help improve the timeliness of the provision of working papers. The Leadership Panel approved the creation of eleven temporary posts within Corporate Support, which includes one finance post.</p> <p data-bbox="340 823 1203 891">We have not identified any significant risks in relation to financial management during our planning.</p>	<p data-bbox="1222 405 1831 472">We will continue to review the financial management arrangements in place.</p> <p data-bbox="1222 519 1831 624">We will specifically follow up on the progress made with the planned review of the finance team capacity.</p>

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Significant risks identified	Planned audit response
Governance and transparency	<p>The BVAR concluded that there was good working relationships between officers and elected members, however the Council's leadership – elected members and management – had made limited progress on key aspects of Best Value. Progress had been particularly slow in community planning, financial and workforce planning, transformation and some aspects of community empowerment. While there had been some very recent progress, the BVAR concluded that the Council's leadership needs to increase its ambition, pace and focus to deliver improvements in these important areas. This therefore remains a risk.</p> <p>We also concluded in previous years that the Council's governance arrangements continued to work effectively. In the interest of continuous improvement, we recommended that the Council should progress its work to allow members of the public access to Council meetings through webcasting, whether live or access to on demand recordings. This was also a specific recommendation in the BVAR report and from October 2021 all Council meetings have been live streamed. We have therefore not identified any specific risks in this area.</p>	<p>We will review the work of the Council 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 assess the work that the Council's leadership has done to increase its ambition, pace and focus to deliver improvements as part of our consideration of the progress on transformation change discussed under "financial sustainability".</p>

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Significant risks identified	Planned audit response
Governance and transparency (continued)	<p>There have been a number of changes within the Internal Audit function during the year, with the Chief Internal Auditor post being vacant for a number of months while recruitment was carried out and a permanent replacement appointed in December. There have also been vacancies at the Senior Internal Auditor and Auditor level. This therefore presents a risk which needs to be closely monitored to ensure that the sufficient assurance can be provided inclusion in the Annual Governance Statement. We have had early discussions with the newly appointed Chief Internal Auditor and plans are in place to provide the assurance required.</p>	<p>We will consider the work of internal audit, and any impact that the resourcing issues have had, as part of our audit of the Annual Governance Statement.</p>
Value for money	<p>The BVAR concluded that performance reports to members were detailed and balanced and there was good scrutiny by members. However, the report identified a number of areas where performance reporting could be improved. This therefore remains an area of risk.</p> <p>The COVID-19 pandemic is expected to continue to have a substantial impact on performance reporting. There therefore also remains a risk that the Council is unable to demonstrate that resources are being used effectively with a focus on continuous improvement.</p>	<p>We will review the performance reports presented at the Council to assess the extent of openness and transparency during the year. This will incorporate consideration of the effectiveness and appropriateness of the arrangements for collecting, recording and publishing the Statutory Performance Information (SPIs).</p> <p>In particular, we will follow-up on the recommendations made in the BVAR in relation to improving performance reporting.</p>

Wider scope requirements (continued)

Best value and Strategic Audit Priorities

Considering Best Value arrangements

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

2021/22 is the final year of the extended six-year approach to auditing BV in councils. BV audit work is integrated with the annual audit and we will work closely with Audit Scotland's Performance Audit and Best Value (PABV) team to plan, perform and report on the BV audit work.

A key feature of the approach to auditing BV is the Controller of Audit providing a Best Value Assurance Report (BVAR) to the Accounts Commission for each Council once over the audit appointment. The BVAR for SAC was published in October 2021. We will continue to follow up on the progress with the recommendations as part of the annual audit work, considering the pace and depth of continuous improvement. Our BV audit work will be integrated into our audit approach, including our work on the audit dimensions discussed on pages 24 to 27.

In 2021/22, we are also required to complete a return to demonstrate when we have reported our audit work on each of the BV themes. The latest judgement on the pace and depth of continuous improvement in the Council is also to be included. These returns will provide intelligence for the handover of audits for 2022/23, when the new approach to BV audit, fully integrated with the annual audit, will be introduced.

Strategic Audit Priorities

In its 2019-24 strategy, the Accounts Commission sets out five Strategic Audit Priorities (SAPs):

- Having clear priorities with a focus on outcomes, supported by effective leadership and long-term planning;
- The strategic appraisal of options to re-shape services in line with priorities. This should consider good practice, innovation and collaborative working with partners;
- Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future;
- Empowering local communities and involving them in the design and deliver of local services and planning for their local area; and
- Reporting councils' performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.

In recognition of the demands on auditors' time and the challenges of remote auditing, the Commission has agreed that auditors are not required to specifically consider and report on the SAPs as part of the 2021/22 audit. The SAPs continue to be important but it is expected that the Controller of Audit will be able to use information reported elsewhere in Annual Audit Reports in respect of the audit dimensions for the purposes of adequately reflecting progress with the SAPs.

Wider scope requirements (continued)

Statutory Performance Information and National Fraud Initiative

Statutory Performance Information

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. This responsibility links with the Commission's BV audit responsibilities. In turn, councils have their own responsibilities, under their BV duty, to report performance to the public.

The Accounts Commission issued a revised **2018 Statutory Performance Information Direction** in December 2018 which continues to apply in 2021/22 and requires a council to report on:

- Performance in improving local public services provided by the Council (on its own and with its partners and communities), and progress against agreed desired outcomes;
- Its own assessment and independent audit assessments of how it is performing against its duty of BV, and how it plans to improve these assessments; and
- How it (with its partners where appropriate) has engaged with and responded to its diverse communities.

We have a statutory responsibility to satisfy ourselves that Council's have made the necessary arrangements for collecting, recording and publishing the statutory performance information. The COVID-19 pandemic is expected to have had a substantial impact on performance reporting. We will therefore consider the effectiveness and appropriateness of the current arrangements as part of our audit dimensions work.

- National Fraud Initiative (NFI)

The NFI in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud and error.

Participating bodies received matches for investigation from January 2021. Most matches should have been investigated by 30 September 2021 and the results recorded on the NFI system. However, some investigations may continue beyond this date.

We have completed a short questionnaire for each body participating in the NFI and submitted it to Audit Scotland by the 28 February 2022 deadline.

Wider scope requirements (continued)

Other requirements

Contributing to performance audits

As in previous years, the Accounts Commission will publish two overview reports (financial and performance) covering the local government sector.

The reports use information from the audited accounts and Annual Audit Reports. However, we will also be requested to provide important supplementary information collected as a dataset.

The local government dataset is expected to be available in March 2022.

Shared Risk Assessment and Joint Scrutiny Planning

We continue to play a key role in the Shared Risk Assessment (SRA) process which is the vehicle for scrutiny bodies to share intelligence and agree scrutiny risks at each council. As the local auditor, we lead the Local Area Network (LAN), which comprises representatives from the main local government scrutiny bodies.

The COVID-19 pandemic has impacted on the work of all local government scrutiny and will continue to affect plans going forward. The Strategic Scrutiny Group is considering how scrutiny partners can best respond in a co-ordinated way to the challenges and changes brought about by COVID-19. We will provide management with any updates as this develops.

Current issues returns

Timely communication by auditors of intelligence is important in helping Audit Scotland to maintain a good level of awareness across the public sector and to keep the Auditor General, the Controller of Audit and Accounts Commission informed.

Current Issue Returns for local government represent an important source of intelligence for reporting to the Commission's Financial Audit and Assurance Panel.

Other areas

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

- Assurance on approved grant claims and other financial returns
 - Assurance on WGA returns
 - Preliminary enquiries on all correspondence received
 - Consider and report on any statutory objections received
 - Submission of fraud returns
-

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

Use of this report

This report has been prepared for the Audit and Governance Panel, 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

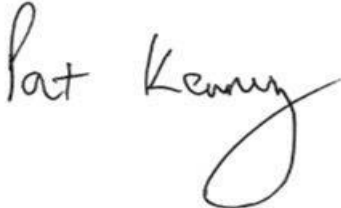
As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

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

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the Annual Report and 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 | 8 March 2022

Technical update and sector developments



Changes to accounting standards

IFRS 16 - Leases

Background

IFRS 16 comes into effect on 1 April 2022. HM Treasury have decided that IFRS 16 will be adopted without retrospective restatement: this means that when it is implemented in 2022/23, Councils will recognise the cumulative impact of applying the standard as at 1 April 2022, with all adjustments to opening balances at that date taken through the General Fund.

IFRS 16 introduces a single lessee accounting model that results in more faithful representation of a lessee's assets and liabilities, and improves comparability between leased and purchased assets operated by Councils. The standard also introduces enhanced disclosures which are intended to improve transparency of financial reporting; full disclosure will be required in 2022/23 financial statements and beyond.

IAS 8 requires entities to disclose an assessment in their 2021/22 accounts of the possible impact of implementing IFRS 16. All Councils should be in a position to estimate this impact before 1 April 2022 and make these disclosures unless immaterial.

Next steps

We are aware that CIPFA are currently consulting on proposals for updating the 2021/22 Code, which includes deferring the implementation of IFRS 16 for a further year. We will discuss the impact for the Council with management once the outcome of the consultation is concluded and final decisions made

Practical Challenges

There are a number of practical challenges that Councils need to consider in preparing for implementation of the new standard, including:

- **Additional cost of asset ownership** – IFRS 16 will increase the amount of fixed assets an organisation will need to maintain information regarding to inform valuation assessments for instance (revaluation or impairment)
- **Completeness of data** – Obtaining and assessing all of the relevant data. Completeness of the lease registers/ Assets records will require greater level of detail.
- **Estimates and judgements** – Separating lease and non-lease components, consideration of extension and termination options
- **Judgements around existing arrangements** – Lack of documentation around the lease agreement, in some cases, will require judgements as to the extent of the arrangements and what accounting treatment is appropriate.
- **Lease Management** – after the initial implementation Councils will have to continue maintaining control of the lease arrangements. Regular reassessment reviews etc.

There are many colleagues within Councils and externally who can assist with challenges and issues you come across when implementing the new Standard – Finance, Estates teams, contract owners, HM Treasury, Other Councils/ IJB/ Local Authorities, National Bodies and Auditors.

Climate change

Consideration of the impact on the audit annual report and accounts

Role of Audit

In June 2021, the Auditor General for Scotland published a blog “making climate change an audit priority” that sets out the challenges for the public sector in tackling climate change and the role audit could play in this.

In July, Audit Scotland held a roundtable to help inform its approach to auditing climate change. The roundtable was made up of the climate change leads for the Accounts Commission and key stakeholders from across Scotland. They posed some challenging questions around the opportunities and challenges of tackling climate change and what it meant for the public sector. Several **key themes and challenges** emerges which were published in an update in October 2021 [Auditing climate change: An update \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/auditing-climate-change-an-update):

- Climate ambition v plans and actions.
- Importance of adaption.
- Paying for it.
- Critical role of the public.
- Joined up working.
- Public sector leadership role.

The time is right for independent audit and scrutiny to help achieve Scotland’s climate change ambitions.

Annual Report and Accounts considerations

As part of our planning discussions with management, we have shared an illustrative framework. The potential impacts of climate change are extensive and pervasive, therefore we recommend the framework is adopted and continually reviewed. Specific areas to start considering in advance of drafting the Annual Report and Accounts include key risks, mitigating actions (for **narrative disclosure**) and impact on **judgements and estimates** made by management:

Acute physical risks, e.g. extreme weather events causing supply change disruption or severe damage to PPE.

Chronic physical risks, e.g. rising sea levels causing damage to PPE; or increased temperatures resulting in higher heat stress to employees.

Policy and Legal transition risks, e.g. direct and indirect tax compliance as tax legislation develops.

Technology transition risks, e.g. development and use of emerging technologies such as renewable energy and battery storage.

Market transition risks, e.g. changing consumer trends resulting in services becoming obsolete.

Reputation transition risks, e.g. damage to reputation through failure to transition effectively to a lower-carbon economy.

Financing risks.

The State of the State 2021-22

Towards a new public sector normal

Background and overview

Now in its ninth year, this report brings together Deloitte and think tank Reform to provide an annual snapshot of the UK's public sector.

This year's report features an exclusive Ipsos MORI survey of more than 5,000 members of the UK public – including almost 900 Scottish adults – plus analysis of interviews with more than 50 senior figures across the UK's public sector. This blend of quantitative and qualitative research offers a unique perspective on government and public services.

What will I learn from this year's State of the State?

Since March 2020, the UK's governments and public services have led radical, exhaustive, and dynamic responses to the coronavirus pandemic. This year's State of the State finds them dealing with both the pandemic and its wider repercussions as a 'new normal' emerges.

Looking beyond the pandemic, the UK Government has set out its ambition to 'build back better' through infrastructure investment, levelling up economic outcomes across the regions and revitalising the UK's place in the world. At the same time, the policies and politics of Scotland, Northern Ireland and Wales continue to diverge from Westminster and Whitehall as well as each other. The State of the State explores all of these developments.

Next steps

A summary of some of the key Scottish findings are provided on the next page. The full report is available at [The State of the State 2021/22 \(deloitte.com\)](https://www.deloitte.com/uk/en/sectors/public-sector/state-of-the-state-2021-22.html)



The State of the State 2021-22 (continued)

Towards a new public sector normal (continued)

Public spending

This year has seen a shift in attitudes to public spending amongst Scottish people. Historically, the keenest in the UK on a higher tax and higher spend environment, views in Scotland are now broadly the same as those in the rest of the UK; possibly driven by the cost of the pandemic on the public purse and worries over household incomes.

29% of the public want to see higher levels of spending after the pandemic.

30% want to see the same balance of tax and spending as before the pandemic began

27% would like to see tax cuts and spending cuts to match.



Social mobility

40% of Scots believe skills and employability are the most important factors when trying to get ahead in life. However, Scots feel more strongly than the UK average that wealth and region are also important indicators on getting ahead in society.



Spending priorities

The Scottish public's views were in line with the rest of the UK with public health and social care the most frequently named priorities.

Support for the growth in green industries and technologies is also high in Scotland, sitting behind housing but on a par with primary and secondary schools and reducing inequality between UK regions.

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 Report and 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 Recognition of COVID-19 related 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.



Fraud Characteristics:

- Misstatements in the Annual Report and 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 Report and 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 Report and 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.

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 Council and will reconfirm our independence and objectivity to the Audit and Governance Panel for the year ending 31 March 2022 in our final report to the Audit and Governance Panel.

Fees

The audit fee for 2021/22, in line with the fee range provided by Audit Scotland is £290,160, as analysed below:

	£
Auditor remuneration	180,110
Audit Scotland fixed charges:	
Pooled costs	18,770
Contribution to AS costs	9,610
Contribution to PABV	81,670
Total proposed fee	290,160



In addition, the audit fee for the charitable trusts audit is £1,000.

The above fee does not take into account the additional work required in relation to severance payments and additional responsibility allowances discussed further on page 16. Once completed, the impact on the fee will be discussed and agreed with management

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 Council, 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

Executing high quality audits remains our number one priority. We are committed to our critical public interest role and continue to embed our culture of quality and excellence into all of our people. This includes using new technology and tools to continue to transform our audit approach.

In July 2021 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 2020/21 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, overall FRC inspection results, showing an improvement since last year from 76% to 79% of all inspections assessed as good or needing limited improvement, reflect the progress we are making. The overall profile of our ICAEW inspections and our internal inspection programme also show a similar overall improvement since last year.

The results for the inspections of FTSE 350 entities fell short of our overall scores, reflecting specific findings on those particular audits rather than issues pervasive across other audits. Our objective continues to be for all 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 agree with and accept the FRC’s findings on the individual inspections. The FRC has recognised improvements following the actions and programmes for previous years and we welcome the good practice points raised, including in respect of impairment and revenue where individual findings continue to occur.

Overall, we are pleased that there have been no significant findings over our firm wide processes and controls over the last three inspection cycles in the areas subject to rotational review by the FRC. However, we are continually enhancing our processes and controls across our business and such changes will directly or indirectly affect audit quality.

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 2020/21 Audit Quality Inspection Report on Deloitte LLP

"We reviewed 19 individual audits this year and assessed 15 (79%) as requiring no more than limited improvements. Of the 11 FTSE 350 audits we reviewed this year, we assessed eight (73%) as achieving this standard".

"Our key findings related primarily to the need to:

- Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets.
- Enhance the consistency of group audit teams' oversight of component audit teams.
- Strengthen the effectiveness and consistency of the testing of revenue."

"The firm has taken steps to address the key findings in our 2019/20 public report, with actions that included increasing the extent of consultations, and enhanced learning, coaching and support programmes.

We have identified improvements, for example, in the extent of challenge of management by audit teams in respect of the estimates used for model testing. This was identified as a key finding last year.

We also identified good practice in a number of areas of the audits we reviewed (including robust procedures relating to going concern and evidence to support the challenge of management in areas of key judgement) and in the firm-wide procedures (including establishing a centre of excellence focused on credit for banking audits to encourage the consistent application of the firm's methodology and guidance)."



Our approach to quality (continued)

Quality of public audit in Scotland – Annual Report 2020/21

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: [Quality of public audit in Scotland annual report 2020/21 | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/quality-of-public-audit-in-scotland-annual-report-2020-21)

The **public audit model in Scotland** is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession.

The audit profession remains under scrutiny after high-profile corporate collapses in the private sector. The Brydon review, alongside the Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Panel's report on the Future of Audit all placed a strong focus on the need for independence of auditors from the bodies they audit.

Public audit in Scotland is well placed to meet the challenges arising from the reviews of the auditing profession. It already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years (current appointments extended to six years due to Covid-19)
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

Environment

The global pandemic has changed and challenged most aspects of our lives. Public bodies have been at the forefront of managing the effects of the COVID-19 pandemic. Public bodies have focused on supporting those most affected. Many bodies had new obstacles to overcome as they prepared financial statements and responded to auditors.

The Scottish Government delayed the accounting and auditing deadlines for NHS and local government bodies to help accommodate these competing pressures. The Auditor General for Scotland and Accounts Commission revised their work programme and prepared COVID-19 specific briefing papers to support public bodies and auditors to respond to the pandemic.

The Auditor General for Scotland and Accounts Commission recognised that the safety and wellbeing of audit staff and staff in public bodies was paramount and that auditors would need to take a pragmatic and flexible approach to their work in 2020/21. They were clear that audit quality should not be compromised.

Our approach to quality (continued)

Quality of public audit in Scotland – Annual Report 2020/21 (continued)

Key messages

1. The application of the Audit Quality Framework (AQF) continues to identify improvement areas and good practice in audit quality. Across the range of evidence used to assess audit quality the conclusion is that the quality of audit work is good in Performance audit and Best Value audit and accountancy firms, with improvement required and planned in Audit Scotland's Audit Services Group where the financial audit quality results do not meet the expected standards.
2. **Areas of Good Practice**
 - ICAS have reviewed compliance with International Standard on Quality Control 1 for all auditors and did not note any issues or matters for further consideration. [\(One Deloitte file reviewed in 2020/21\)](#)
 - All 2019/20 annual audit opinions were signed off by 9 March 2021. [\(All Deloitte opinions signed by 31 October 2020\)](#)
 - Two financial audits reviewed were awarded the highest scores available by the Institute of Chartered Accountants of Scotland (ICAS) with no areas for improvement identified. [\(One Deloitte file reviewed – awarded score of 2A – limited improvement required\)](#)
 - All of the Performance audit and Best Value audits reviewed achieved expected quality standards with limited concerns identified. All audit providers have confirmed that there continued to be a strong culture of support for performing high-quality audit during the pandemic. [\(One Deloitte Best Value file reviewed – awarded score of 2A – limited improvement required\)](#)
 - Stakeholder feedback shows further improvement in the level of satisfaction with external audit services provided, the usefulness of the annual audit report and shows that audit work has had impact.
3. **Areas for improvement**
 - Seven of the eleven (64 per cent) 2019/20 Audit Services Group financial audits reviewed did not meet the expected standard. [\(Not applicable to Deloitte audits\)](#)
 - For two audits, auditors need to investigate the risk of material misstatement in the financial statements and ensure that any such misstatement is resolved appropriately. [\(Not applicable to Deloitte audits\)](#)
 - An area that continues to be an issue for most audit providers is on audit staff views of having sufficient time and resources to deliver high quality audit. [\(An area continually monitored in planning all audits\)](#)



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