



## **Southend-on-Sea City Council**

### Audit planning report for the year ended 31 March 2023

Issued on 19 October 2023 for the meeting on 25 October 2023

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# Introduction

## The key messages in this report

We have pleasure in presenting our planning report to the Audit Committee for the 2022/23 audit. We would like to draw your attention to the key messages of this paper:

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

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

### **Scope of our work**

Our audit work will be carried out in accordance with the requirements of the Code of Audit Practice ('the Code') and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General.

The Code sets the overall scope of the audit which includes an audit of the accounts of the Authority and work to satisfy ourselves that the Authority has made proper arrangements to secure value for money (VFM) in its use of resources.

We understand from our planning procedures performed to date that management has prepared consolidated accounts for 2022/23 including results from its subsidiaries. However, due to the size of the subsidiaries, they are not required to be audited. Please refer to the group scoping section on page 8 for further details.

Our responsibilities as auditor, and the responsibilities of the Authority, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by Public Sector Audit Appointments Limited.

### **Progress of our audit planning procedures**

We are currently concluding our audit for 2021/22 accounts.

We are also currently concluding our 2022/23 planning procedures. Furthermore, our risk assessment procedures in respect of whether the Authority has made proper arrangements to secure VFM in its use of resources are nearing completion. We will update the committee once our procedures are concluded.

# Introduction

## The key messages in this report (continued)

### **Areas of focus in our work on the accounts**

The Code requires that the auditor's work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk. In relation to our audit for the year ended 31 March 2023, we have identified the following significant audit risks:

- Valuation of land and buildings
- Revenue expenditure incorrectly capitalised
- Management override of controls

Our description of the potential significant audit risks is set out on pages 11 to 13.

International Standards on Auditing set a rebuttable presumption of the risk of fraud in the recognition of revenue.

At the planning stage we have not identified the valuation of pension liabilities as a significant risk but we will keep this under review during the audit process. This has, however, been identified as an area of audit focus as described on page 14.

The implementation of International Financial Reporting Standard 16 – Leases (IFRS 16) has been deferred by CIPFA LASAAC until 1 April 2024. The new standard, IFRS 16, will require adjustments to recognise on balance sheet arrangements currently treated as operating leases. Therefore, whilst for 2022/23 this is still not applicable, we recommend the Council makes the necessary arrangements to assess the impact on the Authority's accounts due to IFRS 16 implementation from its implementation date of 1 April 2024.

### **Areas of focus in our work on Value For Money (VFM)**

The Code requires that the auditor's work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk.

The National Audit Office (NAO) issued a revised Code of Audit Practice from 2020/21 onwards, with a revised approach to "Value for Money" work. This has moved to a regime of narrative reporting in a new public "Annual Auditor's Report".

We will continue to follow the revised code guidance for our VFM work.

# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?



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

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

Oversight of external audit

Integrity of reporting

Internal controls and risks

Oversight of internal audit

Whistle-blowing 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 Cabinet, provide advice in respect of the fair, balanced and understandable statement.

- Consider annually whether there is a need for an internal audit function and make a recommendation accordingly to the Cabinet.
- Monitor and review the effectiveness of the internal audit activities.

# Your control environment

## What we consider when we plan the audit

We expect officers 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 officers

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 officers 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.

### Responsibilities of the Audit Committee

As explained further in the Responsibilities of the Audit Committee slide on the previous page, the Audit 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.

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.

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#### Reliance on controls



We test the design and test the implementation of key controls for the audit.  
We have historically not adopted a control reliant approach, on the basis of efficiency.

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#### Performance materiality

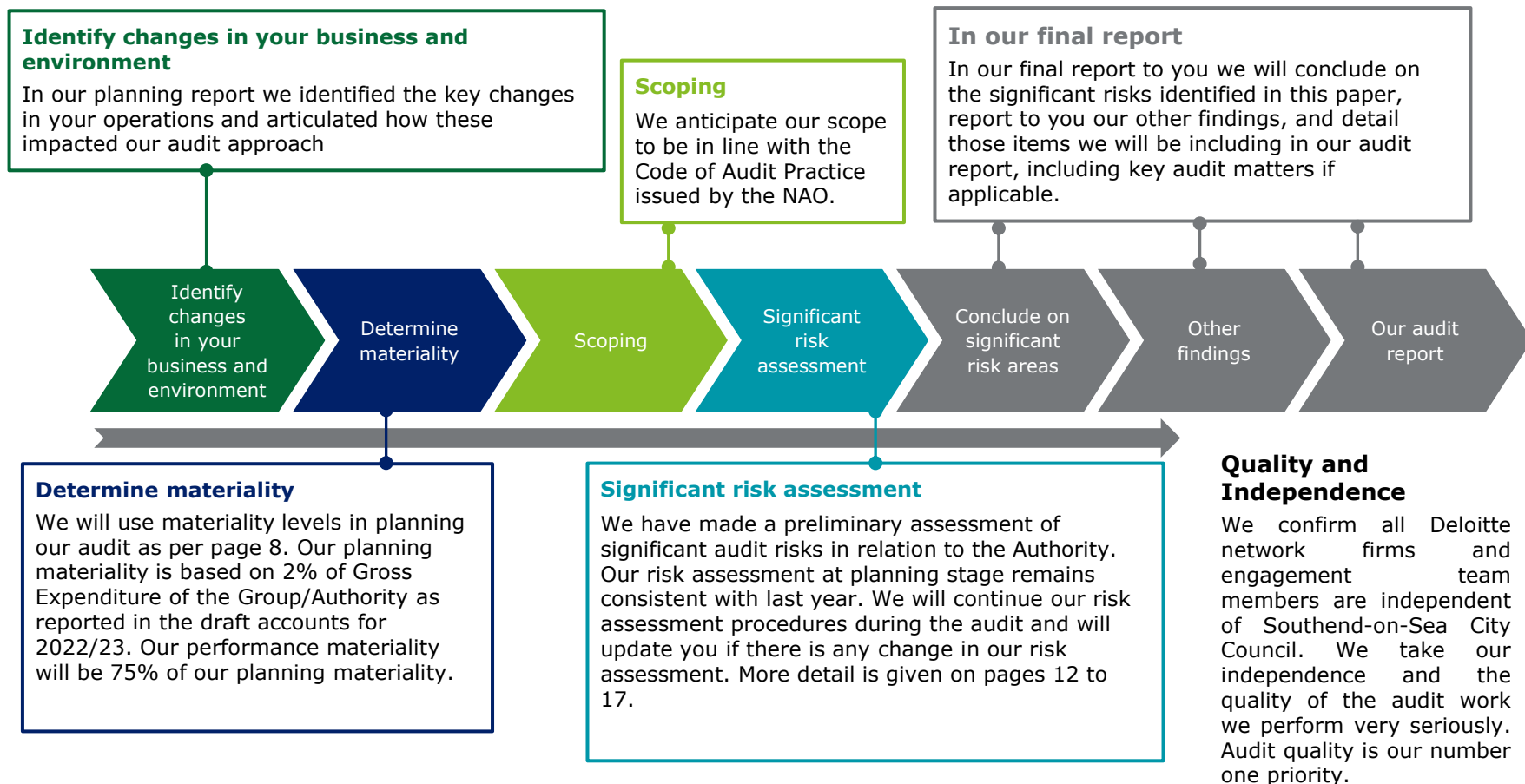


We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality, with reference to factors such as the quality of the control environment and the historical error rate. Where we are unable to rely on controls, we may use a lower level of performance materiality.

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# Our audit explained

## We tailor our audit to your Authority



# Materiality

## Our approach to materiality

### Basis of our materiality benchmark

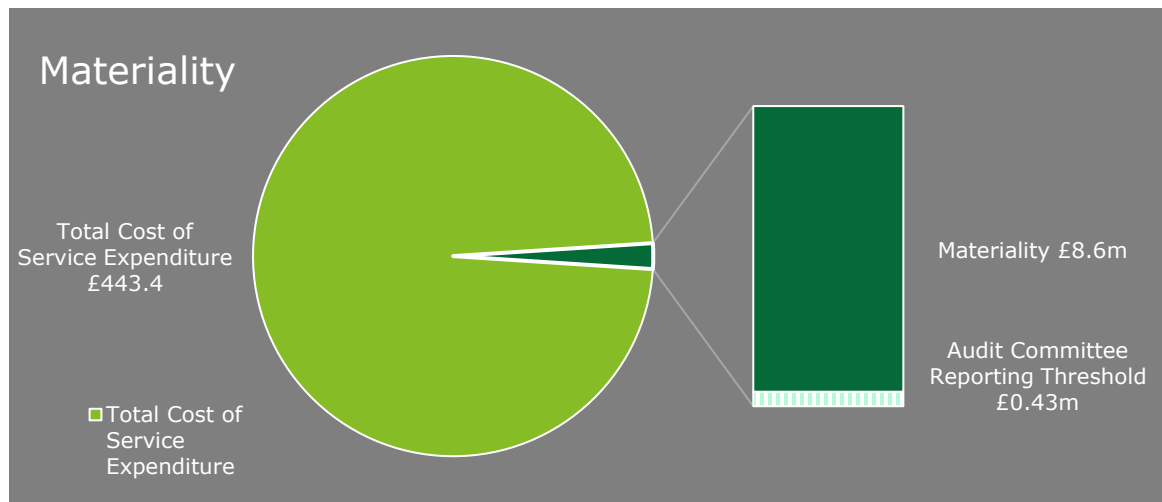
- For Group, the Audit Lead has determined materiality as £9.10m (2021/22: £8.70m) and performance materiality as £6.82m (2021/22: £6.09m), based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the annual accounts.
- For Council, our planning materiality and performance materiality are £8.6m (2021/22: £8.27m) and £6.6m (2021/22: £5.79m) respectively.
- We have used 2% of total cost of service expenditure based on the 2022/23 accounts as the benchmark for determining materiality.
- We will re-visit the determined materiality based on review of final outturn information when available.

### Reporting to those charged with governance

- We will report to you all misstatements found in excess of:
  - For Group - £0.45m (2021/22: £0.44m); and
  - For Council - £0.43m (2021/22: £0.41m)
- We will report to you misstatements below this threshold if we consider them to be material by nature.

### Group scoping

The Council has two wholly owned subsidiaries as South Essex Homes (SEH) and Southend Care (SC). Furthermore, SEH has a wholly owned subsidiary South Essex Property Services (SEPS). The Council also has a 50% holding in Porters Place Southend LLP and 100% holding in a series of Trusts. The results of these entities are consolidated in the group accounts. Our group scoping for 2022/23 is still in progress, we will report on the outcome of our group scoping exercise to the Council in our future communication



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



# Scope of work and approach

## We have the following areas of responsibility under the Audit Code

### Statement of accounts

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

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure
- Are prepared properly in accordance with the Code of Practice on Local Authority Accounting ("the Code").

### Whole Government Accounts

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

HM Treasury (HMT) have not yet issued the guidance for local government for the year ended 31 March 2023. We will commence our work on the WGA after the issuance of the guidance.

### Annual Governance Statement

We are required to consider whether there are any inconsistencies between the Annual Governance Statement and the financial statements and information that we are aware of from our work on the statement of accounts, VfM conclusion and other work.

We will also review any reports from relevant regulatory bodies and any related action plans developed by the Authority.

### Value for Money conclusion

For our Value for Money procedures, we are required to consider the following:

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

To perform this work, we are required to:

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

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

Our responsibilities as auditor, and the responsibilities of the Council, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by PSAA

# Scope of work and approach

## Our approach

### **Liaison with internal audit**

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

We plan to meet with the Head of Internal Audit to discuss the internal audit work performed and we will review the internal audit reports issued in the period. We will consider the findings from their work and where significant control weaknesses are identified, we consider the impact on the scope of our own work.

### **Approach to controls testing**

For controls considered to be 'relevant to the audit', our work involves evaluating the design of these controls and determining whether they have been implemented ("D & I").

We do not expect to place reliance on the operating effectiveness of controls in the current year.

Our assessment of the internal control environment has not been concluded. We will report to the Audit Committee any findings arising from further procedures.

We will consider any major changes to IT systems in year. This forms part of our ongoing risk assessment of IT systems and will involve Deloitte IT specialists as required.

### **Risk assessment**

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

- Conclusion of our audit planning procedures;
- the significant risks and uncertainties previously reported in the statement of accounts;
- the IAS 1 critical accounting estimates previously reported in the statement of accounts;
- our assessment of materiality; and
- the changes that have occurred in the Authority's operations and external environment since the last statement of accounts.

# Significant audit risks

## Risk 1 – Property Valuation

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<b>Risk identified</b>	<p>The Council is required to hold dwellings, other land and buildings within Property, Plant and Equipment and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.</p> <p>The Authority held £717m of property assets (land and buildings) at 31 March 2023 (£715m as of 31 March 2022) as per the draft accounts. This movement from the prior year is due to revaluation movements as a result of the revaluation exercise during 2022/23, reclassifications from assets under construction and material additions and disposals during the year. The Council updates the valuation of its properties using a rolling revaluation programme.</p>
<b>Our response</b>	<p>The following procedures will be completed:</p> <ul style="list-style-type: none"><li>• We will review the design and implementation of the key controls in place in relation to property valuations;</li><li>• We will consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;</li><li>• We will engage with our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets;</li><li>• We will sample test key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation;</li><li>• We will review assets not subject to valuation in 2022/23 to confirm that the remaining asset base is not materially misstated;</li><li>• We will confirm through updates to the valuation and the latest valuation report that there are no difference.</li><li>• We will perform an analysis of the indexation calculation applied to arrive at the valuation of the property assets as at year end to ensure the indexation adjustments were deemed reasonable</li><li>• We will review the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.</li></ul>

# Significant audit risks

## Risk 2 – Revenue expenditure incorrectly capitalised

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**Risk identified** At the time of publishing the 2022/23 financial statements, it has been noted that as part of the Medium Term Financial Strategy, the Council had a substantial capital programme of £169m over the next five years. The capital programme included £52.1m spend in 2022/23.

Determining whether expenditure should be capitalised can involve judgement. There is also an incentive to inappropriately capitalise expenditure as the Council has greater flexibility over its use of revenue compared to capital resources. Given this incentive to capitalise costs that are not capital in nature, we specifically identify this area as a significant risk of material misstatement and a fraud risk.

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**Our response** The following procedures will be completed:

- We will test the design and implementation of controls in place by the entity to ensure balances have been capitalised that meet the conditions for capitalisation.
- We will test a sample of items capitalised to check they are valid and meet the conditions for capitalisation.

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# Significant risks

## Risk 3 – Management override of controls

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### Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks; capitalisation of expenditure and valuation of the Authority's property assets. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

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### Our response

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 officers 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
- Perform a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the annual 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.

# Other areas of focus

## Pension liability

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### **Risk identified**

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS). The Council's pension fund deficit / gain is a material estimated balance and the Code requires that this liability / asset be disclosed on the Council's Balance Sheet. Per the draft financial statements at 31 March 2023, the asset totalled £122.5m ( Liability 2021/22: £92.4m). As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the pension liability valuation being materially misstated

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### **Deloitte response and challenge**

We will complete the following procedures:

- We will obtain a copy of the actuarial report for the Council produced by Barnett Waddingham, the scheme actuary, and agreed the report to the Statement of Accounts pension disclosures.
  - We will review the disclosures made in the Statement of Accounts against the requirements of the Code.
  - We will liaise with the audit team of Essex Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council.
  - We will assess the independence and expertise of the actuary supporting the basis of reliance upon their work.
  - We will review and challenged the assumptions made by Barnett Waddingham, including benchmarking.
  - We will assess the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.
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# Other areas of audit focus (continued)

## Porters Place Southend-on-Sea LLP

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**Risk identified**

We have noted a long term debtor balance of £3.775m within the financial statements of the Council due to be received from Porters Place Southend-on-Sea LLP (hereafter referred to as Porters Place). Porters Place is one of the joint ventures in which the Council participates. It is a 30-year partnership with Swan Housing Association and their wholly owned subsidiary Swan BQ Limited, with the purpose to regenerate the Queensway Estate and surrounding environs. Over the last year Swan Housing Association have been in discussions with parties around a possible business combination. In February 2023 Swan joined Sanctuary housing as a subsidiary. During August 2023 we received an update on the Better Queensway scheme and noted that Sanctuary Housing Association are seeking to exit from the partnership and the Better Queensway scheme. An appropriate settlement agreement is under development that will cover the terms of Sanctuary's withdrawal. Through discussions with management and our knowledge obtained around the possible transaction we concluded that there is a risk that balances due under the Porters Place agreement may not be recoverable.

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**Deloitte response and challenge**

We will complete the following procedures:

- We will inquire of management as to the latest update on the planned business combination and search for a new partner to understand the level of risk within the balances noted.
  - We will inspect documentation and information available to us substantiate the amounts at risk as well as mitigations of the risk noted. The Council has included additional disclosure in this regard within note 5 of the statement of accounts.
  - We will inspect the statement of accounts and confirm that the disclosure given were reasonable and in line with our expectation.
  - We will add a representation within the management representation letter that will need to be signed by the Council at the signing date to confirm information obtained in relation to Porters Place and any developments have been considered for any impact on the financial statements and communicated to the audit team.
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# Value for Money

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

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria:
  - Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services.
  - Governance: How the body ensures that it makes informed decisions and properly manages its risks.
  - Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers its services.
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to VfM arrangements, which might include emerging risks or issues.
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

AGN03 requires auditors to set out the results of their risk assessment as part of the audit planning report. Our work is currently in progress and discussion has been held with officers around the VfM reporting requirements. We will report to a later Audit Committee on any matters arising from this work. Specific areas that we expect to focus on in understanding the Authority's arrangements include: Financial sustainability and OFSTED finding on Children Services.



# Prior year audit adjustments

## Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the prior year audit:

		Credit/(Charge) to the income statement £'m	Increase/ (Decrease) in net assets £'m	Increase/ (Decrease) in retained earnings £'m
<b>Factual misstatements</b>				
Other Expenses	[1]	(0.8)		
Equity	[1]			0.8

(1) We identified an unadjusted misstatement of £844k in relation to the Shared Revaluation. We were informed by the management that the new version of the RAM system implemented from 01/04/2023 will address this issue going forwards.

# 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 the valuation of land and building and other significant judgements

- We will obtain a deep understanding of your business, its environment and of your processes such as Revenue, Fixed Assets, Financial Reporting enabling us to develop a risk-focused approach tailored to the Authority.
- Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve IT specialists and also Deloitte Real Estate to support the audit team in our work on valuation and pensions specialists in our work on the pension fund 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.



### **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.

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our respective responsibilities are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies." The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the NAO Code of Audit Practice. The responsibilities of audited bodies are derived principally the Local Audit and Accountability Act 2014 and from the Accounts and Audit Regulations 2015.

Our report is designed to communicate our preliminary audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our preliminary audit plan, including key audit judgements and the planned scope.

### Use of this report

This report has been prepared for the Audit 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.

### What we don't report

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

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers 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 statement of accounts and the other procedures performed in fulfilling our audit plan.

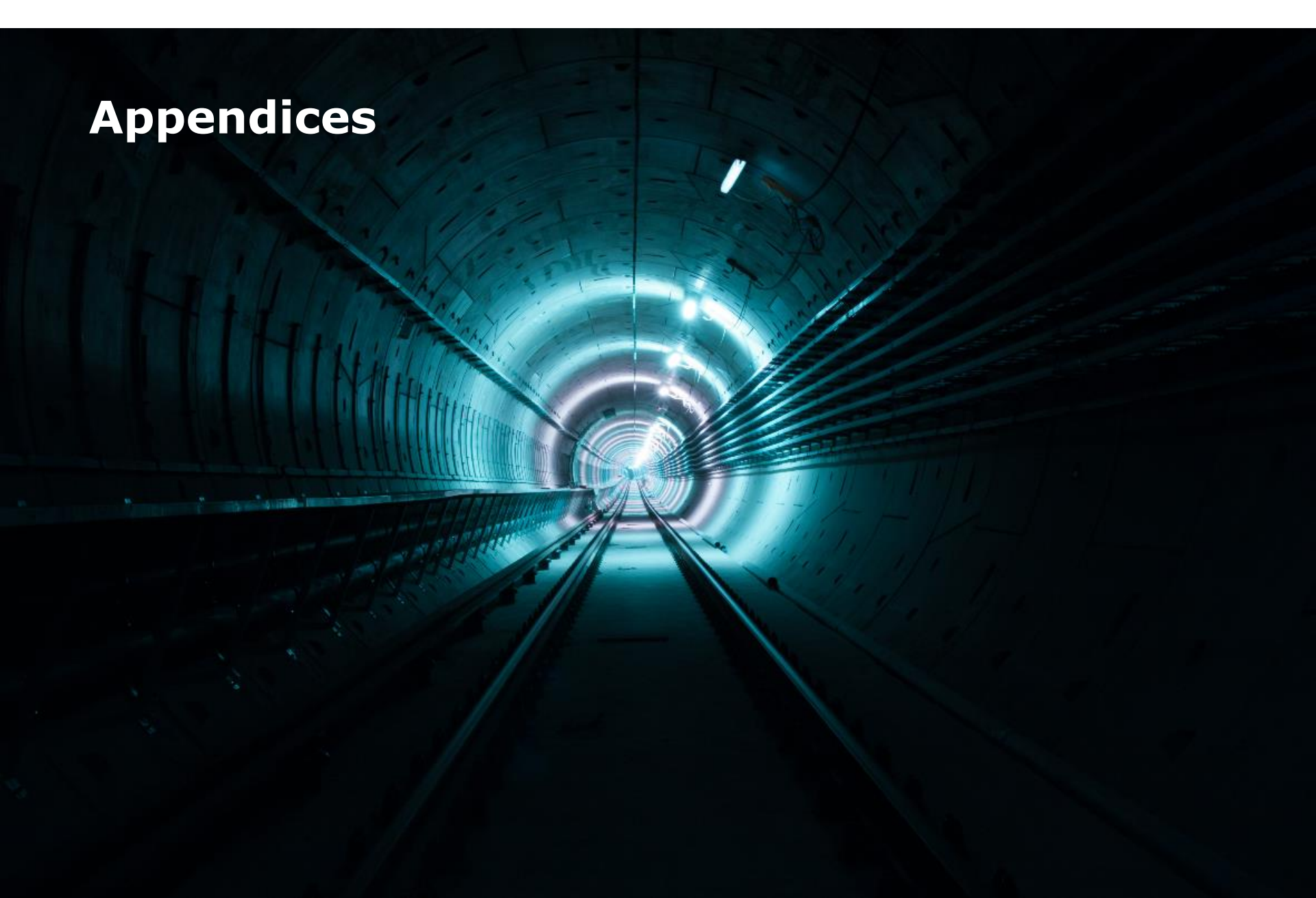
### Other relevant communications

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

**Deloitte LLP**

19 October 2023

# Appendices



# Appendix 1 - Fraud responsibilities and representations



## **Your Responsibilities:**

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



## **Our responsibilities:**

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified risks of material misstatement due to fraud in valuation of property, revenue expenditure incorrectly capitalized and management override of controls.
- We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.
- We will communicate to you any other matters related to fraud that are, in our judgment, relevant to your responsibilities. In doing so, we shall consider the matters, if any, regarding management's process for identifying and responding to the risks of fraud and our assessment of the risks of material misstatement due to fraud.



## **Fraud Characteristics:**

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

# Appendix 1 - Fraud responsibilities and representations

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



## **Management and other personnel:**

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to risks of fraud.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We will also make inquiries of personnel who are expected to deal with allegations of fraud raised by employees or other parties, if any.



## **Internal audit**

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



## **Those charged with governance**

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

## Appendix 2 – 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:

<b>Independence confirmation</b>	We confirm that we comply with FRC Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
<b>Fees</b>	There are no non-audit fees.
<b>Non-audit services</b>	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.
<b>Relationships</b>	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

The professional fees expected to be charged by Deloitte for the period from 01 April 2022 to 31 March 2023 are as follows:

	2022/23	2021/22
	£k (exc VAT)	£k (exc VAT)
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	110*	110*
<b>Total audit</b>	<b>TBC</b>	<b>TBC</b>
Audit related assurance services	-	-
Other assurance services	TBC	TBC
<b>Total assurance services</b>	<b>TBC</b>	<b>TBC</b>
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>

\* In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we will be discussing the final position with the Council in respect of the additional inputs for the 2020/21, fees for 2021/22 and fee estimate for 2022/23. We will subsequently provide an update to the Audit Committee.

All additional fees are subject to agreement with PSAA.

# Our approach to quality

## FRC 2022/23 Audit Quality Inspection and Supervision report

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

In July 2023, the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2022/23 cycle of reviews.

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

In that context, our inspection results for our audits selected by the FRC as part of the 2022/23 inspection cycle remain consistent year-on-year, with 82% of all inspections in the cycle assessed as good or needing limited improvement. This reflects the ongoing investment we continue to make in audit quality, with a relentless focus on continuous improvement. Our audit culture and the audit quality environment we create are critical to our resilience and reputation as a business and we remain committed to our role in protecting the public interest and creating pride in our profession.

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

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

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

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

[Audit Firm Specific Reports - Tier 1 audit firms | Financial Reporting Council \(frc.org.uk\)](https://www.frc.org.uk/audit-quality/audit-firm-specific-reports)



# Our approach to quality

## FRC 2022/23 Audit Quality Inspection and Supervision report

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

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

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

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

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

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

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

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



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