



## **Royal County of Berkshire Pension Fund**

Planning report to the Audit Committee for the year ended 31 March 2021

Issued 23 July 2021 for the meeting on 29 July 2021

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# Introduction

## The key messages in this report:

We have pleasure in presenting our Planning Report to the Audit Committee (“the Committee”) for the 2021 audit of the Royal County of Berkshire Pension Fund (“the Fund”). 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 financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

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### Scope

Our principal audit objective is to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of the Fund prepared under the Code of Practice on Local Authority Accounting (“the Code”) issued by CIPFA and LASAAC. We will be performing procedures to inform an opinion on the Fund accounts, which form part of the Council’s Statement of Accounts, and we will be performing procedures to inform an opinion on the consistency between those financial statements and the Pension Fund Annual report.

Additionally, we perform IAS19 procedures to support the local authority's audit of the pension liability in its statement of accounts.

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### Status of our 2020 audit

At the date of issue of this report, our audit of the pension Fund for the year ended 31 March 2020 is nearing completion and our final audit report for the 2020 audit was presented to you for consideration at the meeting on 17 May 2021. The audit opinion for 2020 can be signed on completion of the following points:

- Update of our subsequent events and going concern procedures; and
- Receipt of the signed representation letter.

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### Audit Quality

Our audit approach is tailored to providing the Audit Committee with an audit which is designed to provide assurance and insight over the Fund control environment.

Our audit quality is managed by using dedicated pension scheme audit specialists within the team. This is supplemented by our IT teams, actuary specialists and longevity swap valuation specialists. This structure allows us to challenge key judgements taken in the preparation of the financial statements.

We plan and deliver an audit that raises findings early with those charged with governance. This is underpinned by mutually agreed timetables, detailed audit request lists and frequent communications with management and the Audit Committee.

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# Introduction (continued)

## The key messages in this report:

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### Key developments

As part of our audit planning procedures to date, we have held planning meetings with key members of management to develop our understanding. The key developments are:

Across the year under audit, coronavirus (COVID-19) and Brexit have continued to cause disruption and volatility to financial markets. In line with the 2019/20 financial year, we will expect a discussion with management to assess the going concern of the Fund including the continuing impact of COVID-19 and impact of UK leaving the European Union.

We have reviewed each of the key account balances as part of our 2021 risk assessment. The uncertainty in the property market has subsided and as a result we do not expect their to be a material uncertainty in the valuation of the pooled funds.

Operationally we expect to complete the 2021 audit remotely and have discussed this approach with the Fund's management. We will remain alert that controls may be operating differently throughout our audit.

We will be using our Deloitte portal for the secure transfer of audit information and have compiled a detailed schedule of information required as part of the audit. In addition, we will utilise Microsoft Teams to hold video calls to update our process documentation and will utilise the functionality to share screens and inspect audit information. We have good experience of delivering audits remotely and are fully prepared to react and adapt to COVID-19 restrictions.

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### Significant audit risks

As we continue to accumulate knowledge of the Fund we have developed our risk assessment so that our plan reflects those areas which we believe have a greater chance of leading to material misstatement of the financial statements.

Based on procedures performed to date, we summarise below the areas of significant audit risk we have so far identified, these may be subject to change following completion or our remaining planning work. We will update the Committee on any changes to our risk assessment at the next meeting. The significant risks currently identified are:

- Management override of controls; and
- Valuation of the longevity swap.

Auditing Standards include a presumption that management override of controls and revenue recognition are significant risks for all our audits.

We have rebutted the presumption of risk of fraud in revenue recognition for the Fund, as we consider that there is little incentive or opportunity for revenue (including investment income, transfers and contributions) to be fraudulently misstated and therefore there is limited risk of material misstatement arising due to fraud in this area.

Please refer to pages 12 and 13 for full details.

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# Introduction (continued)

## The key messages in this report:

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### Significant issues identified last year

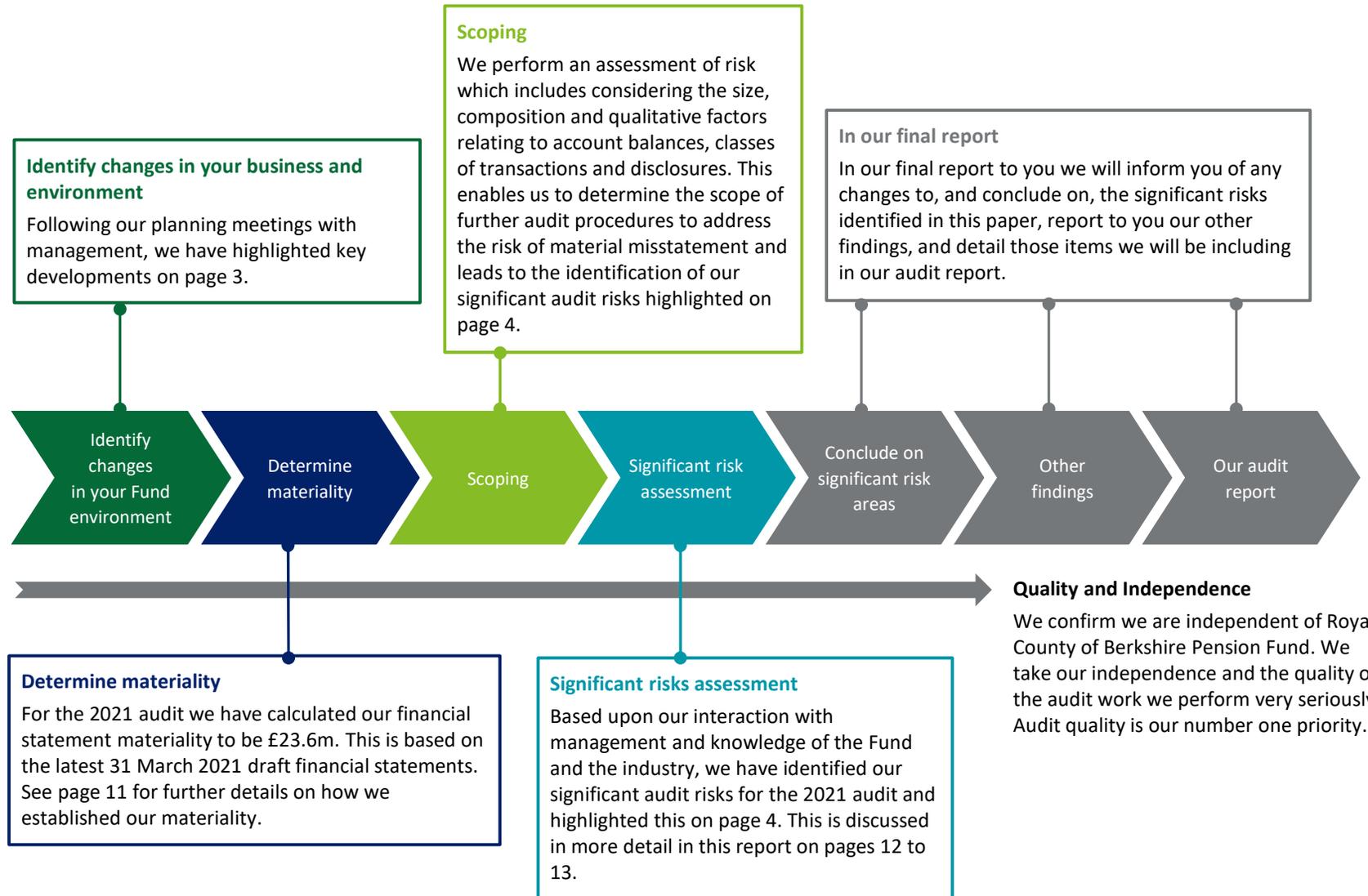
In our 2020 final audit report, we noted the following significant issues:

- A material error of £31.5m in the value of alternative funds arising from the absence of a controls to determine the valuation of stale price funds and to update the financial statements if new information came to light. We recommended that the Fund ensures controls within the financial reporting process are implemented such that the best estimate of the fair value of investments is used and that material changes to the investment balances are reflected in the financial statements;
- In our final report on the 2019 audit, we recommended that the Authority ensures that the longevity swap valuations provided by the actuary are reviewed and that the assumptions are understood and agreed before inclusion in the financial statements. Procedures performed during our 2020 audit revealed that, while the longevity swap valuation had been discussed with Barnett Waddingham, there was no formal control design documented and no recorded evidence of implementation of the control. We recommended that evidence of this review and assessment is clearly documented;
- We noted that administration system super-users have the access rights to edit their own member records and those of each other. Whilst any editing of the system can be reviewed, there is no formal review of this editing activity and no evidence was available of any other mitigating controls. We recommended that the IT system is updated to prevent super-users from editing their own records, that any editing of each other's records is checked by a third person, and that an annual review of the system audit report is conducted to ensure that this control is being implemented and evidenced;
- The Fund made an overnight loan to the Authority on the 27 June 2019 of £1.2m. The amount was returned to the Fund in full on the 28 June 2019. We recommended that the Fund does not enter into similar transactions in the future, at least not without appropriate consideration by those charged with governance and a breach has been reported to the Pensions Regulator;
- The design of the control for review of the financial statements did not include checking the draft statements to the underlying workings, nor was there evidence of formal review of this. We recommended that the design of the financial statement review control is amended to include checking to underlying working papers, the completion of a full CIPFA checklist, and is communicated clearly to all those involved in the preparation and review process; and
- The design of the control for review of journal postings does not include a formal description of the review process. There was no clear evidence available that a review took place through testing performed. We recommended that the design of the journal posting review control is amended to include a well defined scope. We also recommended that this amendment is communicated clearly to all those involved in the preparation and review process, and takes place in a timely manner before journals are posted to the accounting system.

The Fund's response to the above findings will be reviewed as part of this year's audit work.

# Our audit explained

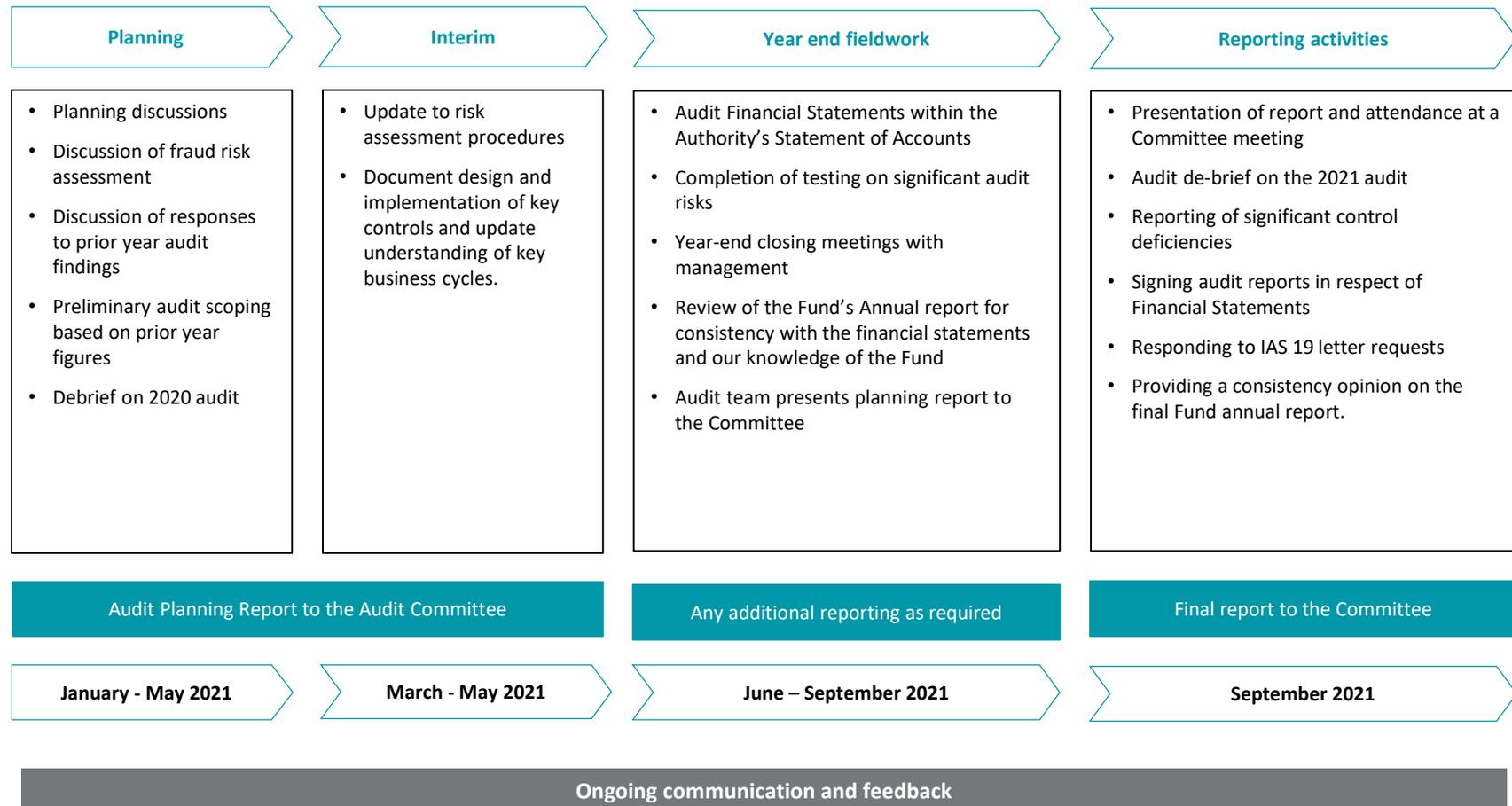
We tailor our audit to your fund:



# 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 and initial comments from the interim and final visits will be shared with management as required. The following sets out the expected timing of our reporting to and communication with you.



# Impact of COVID-19 on our audit

## Covid-19 outbreak - How is Deloitte responding?:

Deloitte have continued to monitor and manage our response to the COVID-19 situation in order to be able to respond as necessary. The health and safety of our people is paramount, but we are doing our utmost to ensure we can complete audits to required timetables. We summarise below how we are responding.

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### Impact on our audit and our response

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We have Business Continuity Plan ('BCP') arrangements which align to ISO 22301. Our BCP for the firm has been enacted to consider and mitigate the impact of COVID-19 across our operations. The health and safety of our people and those we work with comes first. This includes the provision of advice and support to staff and associates, development of response plans, and upgrades to our IT infrastructure to increase capacity for secure remote working.

We have the capability to work remotely with our audited entities, utilising a number of collaboration tools, including Deloitte Connect (a tool that facilitates secure two-way dialogue between the Deloitte team and management to effectively manage engagement co-ordination) and MS Teams allowing us to collaborate and supervise activities.

We have adequate server capacity for all our people to work remotely and technological infrastructure such as Deloitte Connect that we have already been using with officers.

We are in regular contact with regulators as well as other Deloitte Member Firms to co-ordinate and understand the impact locally so we can execute global audits.

# Impact of COVID-19 on our audit (continued)

## COVID-19 outbreak - Impact on our audit

The first table below reflects some general considerations. The second table reflects some impacts specific to the local government context and how the Fund plans to respond to this.

Impact on the Fund	Impact on the Fund's Statement of Accounts	Impact on our audit
<ul style="list-style-type: none"> <li>Unavailability of personnel.</li> <li>Increase in demand for some services and challenges in delivering such services</li> </ul>	<ul style="list-style-type: none"> <li>Principal risk disclosures</li> <li>Fair value measurements based on unobservable inputs</li> <li>Changes to the fair value hierarchy disclosure of some investments</li> <li>Events after the end of the reporting period</li> <li>Consider the impact on the Fund's going concern assessment and consider the need to enhance disclosures with respect to going concern</li> </ul>	<ul style="list-style-type: none"> <li>Focus on key areas of material change and uncertainty</li> <li>We will review the Fund's going concern assessment and consider the adequacy of disclosures in the annual report and accounts with regards to going concern</li> </ul>
<b>Specific changes impacting local government and how the Fund audit plan will respond (bold text)</b>		
<p>The publication date for final, audited, accounts has moved from 31 July to 30 September 2021 for all local authority bodies.</p> <p><b>Discussions with management indicated the need to defer the original audit scheduling which aimed for the majority of work to be completed in July 2021.</b></p> <p><b>This plan also assumes that third party reports such as the pension report from the actuary and investment manager reports are made available within this timeframe.</b></p> <p>There will be disclosure requirements related to the impact of COVID-19.</p> <p><b>Management are aware of this. We will evaluate the disclosures made by officers to determine whether they comply with the relevant disclosure requirements.</b></p>	<p>Audit is to be conducted remotely.</p> <p><b>Our team will be using technology such as Microsoft Teams to facilitate the delivery of the audit whilst working remotely. We have an established practice with the finance team of transacting information over Deloitte Connect, our secure information storage portal, from last year's audit where we used this tool.</b></p> <p>Potentially heightened risks of fraud.</p> <p><b>The team have received extra training and will maintain professional scepticism. Management should also consider any gaps in the control framework under the current circumstances giving greater rise to fraud risk.</b></p> <p>There may be material uncertainties to disclose in regard to property and other asset valuations.</p> <p><b>We will evaluate this once the final valuation reports are provided.</b></p>	

# Scope of work and approach

## Our approach:

### **Liaison with internal audit**

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

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

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

### **Approach to controls testing**

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

### **Promoting high quality reporting to stakeholders**

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Fund completes the Code checklist during drafting of their financial statements.

# Materiality

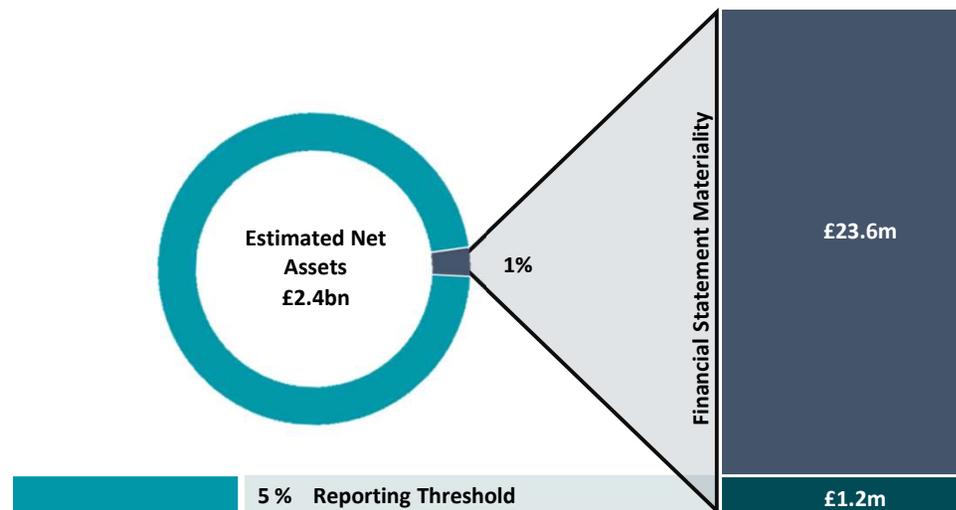
## Our approach to materiality:

### Basis of our materiality benchmark

- We have estimated financial statement materiality as £23.6m based on professional judgement, the requirement of auditing standards, and the net assets of the Fund. As we complete our remaining planning procedures, we will consider further, together with the Royal Borough of Windsor and Maidenhead audit team, whether any adjustment is required to the level of materiality applied to the Fund. If any changes are made to our assessment of materiality we will communicate those to the Audit Committee.
- We will apply a factor of 1% (compared with 1% for the 2020 audit) to the selected benchmark of Fund net assets. We have used the draft net assets value as at 31 March 2021 as per the latest draft financial statements provided for our testing.

### Reporting to those charged with governance

- We will report to you all misstatements found in excess of 5% of materiality, we will report to you misstatements below this threshold if we consider them to be material by nature.
- We will review materiality across our 2021 audit, and report any changes to those charged with governance in our subsequent audit reports.
- Materiality calculation: Although materiality is the judgement of the audit partner, the Committee members must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



# Significant Risks

## Management override of controls:

### **Risk identified**

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

### **Deloitte response management override of controls risk identified**

In order to address the significant risk our audit procedures will consist of the following:

- Use Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted by the Fund. This uses intelligent algorithms that identify higher risk and unusual items;
- 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;
- Perform a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Test the design and implementation of controls around the journals process and investment and disinvestment of cash during the year;
- Review of related party transactions and balances to identify if any inappropriate transactions have taken place;
- Review the accounting estimates for bias, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management; and
- We will consider whether the conditions resulting from COVID-19 impact the level of risk associated with potential frauds and adjust our procedures accordingly.

# Significant Risks (continued)

## Valuation of the longevity swap:

### **Risk identified**

The Fund holds a material longevity swap to hedge longevity risk. A longevity swap is designed to insure the Fund against the risk that pensioners live longer than the current mortality assumptions. Valuation of longevity swaps are sensitive to relatively small movements in the key assumptions used in the actuarial calculations. The setting of these assumptions involves judgement. Based on last year's draft financial statements the value was (£123.9m) and we expect the value to be material in size this year.

As a result of this we consider the valuation of the longevity swap to be a significant risk.

### **Deloitte response to the risk identified**

In order to address this area of significant audit risk, we will perform the following audit procedures:

- Perform an assessment of the actuarial expert in respect of their knowledge and experience in this area;
- Test the design and implementation of the key controls with respect to the valuation of the longevity swap;
- Obtain a valuation report directly from the actuary and reconcile this to the financial statements disclosure;
- Review the underlying documentation for the policy, including the population covered, the assumptions and other key inputs used in the calculation, and the agreed cash flows;
- Engage in-house actuarial specialists to challenge and assess the reasonableness of the valuation of the policy based on the underlying terms of the contract and the forecast cash flows; and
- Compare our expectation of the value with that reported by the actuary, investigating any differences identified that are outside the range of results that we consider to be reasonable.

# 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 Fund.

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.



**Jonathan Gooding**  
for and on behalf of Deloitte LLP  
St Albans | 23 July 2021

# Appendix 1: Fraud responsibilities and representations

## Responsibilities explained:



### Your Responsibilities:

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



### Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the management override of controls and the valuation of the longevity swap as the key audit risks for the Fund.



### Fraud Characteristics:

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

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

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

# Appendix 1: Fraud responsibilities and representations

## Inquiries:

We will make the following inquiries regarding fraud:



### Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to the Committee regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.

### Internal audit



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

### The Committee



- How the Committee 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 the Committee has knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of the Committee on the most significant fraud risk factors affecting the entity.

## 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:

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<b>Independence confirmation</b>	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 Fund and will reconfirm our independence and objectivity to the Committee for the year ended 31 March 2021 in our final report to the Committee.
<b>Fees</b>	<p>The audit scale fee for the year ended 31 March 2021 is £19,120 however this is subject to change. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers, we are in discussion with the Fund regarding the current level of fee which we deem to be too low given the size and complexity of the body.</p> <p>Our fees for issuing IAS 19 assurance letters to other auditors in respect of participating employers are not included in the above audit fee. We have estimated a fee of £2,500 per letter, which totals £15,000 for our 2021 audit.</p> <p>The above fees exclude VAT and include out of pocket expenses.</p>
<b>Non-audit fees</b>	<p>In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy.</p> <p>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.</p>
<b>Independence monitoring</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>Ethical Standard 2019</b>	The FRC has released the Ethical Standard 2019. The standard classes pension schemes as 'other entities of public interest' where assets are greater than £1bn and there are more than 10,000 members. As a result, non audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subs will be prohibited.
<b>Relationships</b>	We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

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# Appendix 3: Our approach to quality

## Responding to challenges in the current audit market:

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

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The role of audit	<ul style="list-style-type: none"><li>• Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability)</li><li>• Deloitte fully supports an independent review into the role of auditors</li><li>• The Government’s Brydon Review will consider UK audit standards and how audits should evolve</li></ul>
Would it be better to have audit only firms?	<ul style="list-style-type: none"><li>• Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit</li><li>• Our investment in audit innovation, training and technology is greater because of the multidisciplinary model</li></ul>
Is the current audit market uncompetitive?	<ul style="list-style-type: none"><li>• We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders</li><li>• There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering</li><li>• The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA’s suggested market remedies</li></ul>
Independence and conflicts from other services	<ul style="list-style-type: none"><li>• Legislation and the FRC’s Ethical Standard restrict the services we may provide to audit clients</li><li>• Deloitte invests heavily in systems, processes and people to check for potential conflicts</li><li>• We have governance in place to assess any areas of potential conflict, including where required to protect the public interest</li><li>• Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue)</li></ul>
Deloitte	<ul style="list-style-type: none"><li>• Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest</li><li>• Our Impact Report and Transparency Report are available on our website <a href="https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html">https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html</a></li><li>• Our response to the latest AQR report is on page 19.</li></ul>

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## Appendix 3: Our approach to quality

### AQR team report and findings:

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

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

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

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

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

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

All the AQR public reports are available on its website.

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

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

We reviewed 17 individual audits this year and assessed 13 (76%) as requiring no more than limited improvements. Of the 10 FTSE 350 audits we reviewed this year, we assessed nine (90%) as achieving this standard.

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

#### Our key findings related principally to the need to:

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

#### The firm has taken steps to address the key findings in our 2019 public reports, with actions that included focused training and standardising the firm’s audit work programmes.

We have identified improvements, for example in the audit of potential prior year adjustments and related disclosures, a key finding last year. We also identified good practice in a number of areas of the audits we reviewed (including effective group oversight and robust risk assessment) and in the firm-wide procedures (including the firm’s milestone programme, with expected dates for the phasing of the audit monitored by the firm).



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