

PAPER NO. WRWA 22-15**WESTERN RIVERSIDE WASTE AUTHORITY**

MEETING	14 th June 2023
REPORT AUTHOR/ DATE	Treasurer (Chris Buss-Tel 020 8871 2788) 6 th June 2023
SUBJECT	The External Audit Plan for 2023/24
CONTENTS	Page 1 Executive Summary Page 1 Recommendation Pages 2-28 Audit Plan
STATUS	Open - circulation of this paper is not restricted.
BACKGROUND PAPERS	No background papers were used in the production of this report

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EXECUTIVE SUMMARY AND BACKGROUND

1. The Authority's Auditors – Deloitte - have drafted an Audit Plan which was received by Management on 1st June 2023. The plan outlined the basis of their approach to the 2022/23 audit. The base cost of the Audit for 2022/23 is £12,058 with an estimated additional £15,000 for both increasing base scale fees and specialist valuation work which are part of on-going discussions between audit firms and the Public Sector Audit Appointments (PSAA) body. This brings the total estimated cost to £27,058. Any addition will be subject to verification and justification and agreement by the Authority.
2. The Plan, a copy of which is attached, includes the auditors' analysis of risks, their strategy and the reporting and audit timetable.
3. The draft Plan has been agreed by Authority officers and is presented to Members for information. However, it is a 'discussion' document, as emphasised by the auditors, to the extent that any issues that Members wish to raise in relation to the Plan can be communicated directly to the auditors as indicated in their introductory letter.
4. Deloitte have outlined an overall materiality level for the financial statements of £889,000 based upon 2% of gross expenditure. The reporting level of uncorrected misstatements to be communicated to Authority Members has been set at £44,000. This is outlined on page 7 of the plan.
5. As outlined in Paper No. WRWA 22-31 in November 2022, the Public Sector Audit Appointments (PSAA) has appointed KPMG as the Authority's auditors for the period 2023/24 to 2027/28. An initial introduction meeting has taken place with the Director who has confirmed that they propose issuing an audit plan for 2023/24 in time for reporting to either the November 2023 or January 2024 Authority meeting.

RECOMMENDATIONS

5. The Authority is recommended to:
 - (a) accept the level of materiality and misstatement outlined on page 7 of the plan;
and
 - (b) otherwise receive this report as information

Western Riverside Transfer Station
Smugglers Way
Wandsworth SW18 1JS

CHRIS BUSS
Treasurer

6th June 2023



Western Riverside Waste Authority(WRWA)

Planning report to the Members of the Authority on the audit for the year ending 31 March 2023

Issued 1 June 2023 for meeting on 15 June 2023

Contents

01 Planning report

Introduction	4
Responsibilities of the Members of the Authority	6
Our audit explained	7
Scope of work and approach	8
Significant risks	10
Other areas of audit focus	13
Maintaining audit quality	15
Purpose of our report and responsibility statement	16

02 Appendices

Fraud responsibilities and representations	18
Independence and fees	20
Revisions to auditing standards coming into effect	21
Climate Change and the impact on public sector bodies	26

Planning report

Appendix



Introduction

The key messages in this report:

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

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

We have pleasure in presenting our planning report to the Members of Western Riverside Waste Authority (the Authority) for the year ended 31 March 2023 audit. We would like to draw your attention to the key messages of this audit plan:

Audit Plan

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

Based on these procedures, we have developed this plan to ensure that we provide an effective audit that focuses on the most significant areas of importance and risk to the Authority.

Significant Audit Risks

We have taken an initial view as to the significant audit risks the Authority faces. These are:

- Revenue and expenditure recognition
- Property valuations; and
- Management override of controls.

Details of these risks are set out on pages 10 to 12.

Other Areas of Audit Focus

Other matters which we have not currently identified as significant audit risks for the 2022/23 audit, but which will be areas of audit focus (and where risk will be reassessed as more information becomes available), include the pension liability.

In addition, we are required to report whether, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources under a revised scope of work under the Code of Audit Practice.

Details of these areas are set out on pages 13 to 14.

Introduction – (continued)

The key messages in this report:

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

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

Regulatory Change

The International Auditing and Assurance Standards Board (IAASB) issued a revised risk assessment standard in December 2019, that takes effect for periods commencing on or after 15 December 2021. For most entities, this will be December 2022 year ends and later. The FRC has adopted the standard in the UK with minimal additions.

The revision was made to respond to challenges and issues with the current standard and requires a more robust risk identification and assessment.

We had already incorporated many of the changes into our methodology in advance of the standard being introduced, but we summarise in Appendix 3 some of the areas where this may impact our audit as relating to ISA (UK) 315 and ISA (UK) 240.

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 Authority 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.

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.

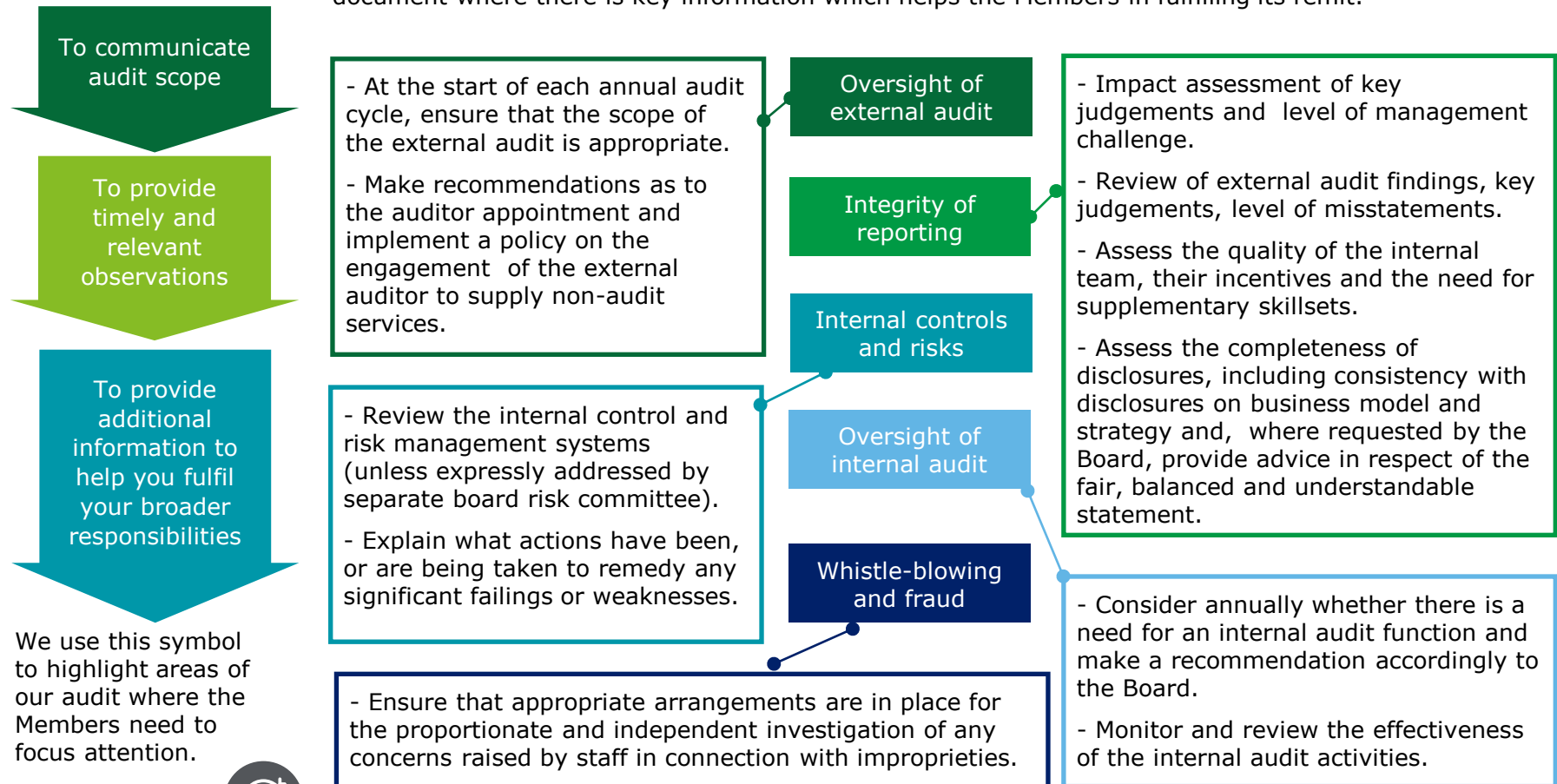
Mo Ramzan
Audit lead

Responsibilities of the Members of the Authority

Helping you fulfil your responsibilities

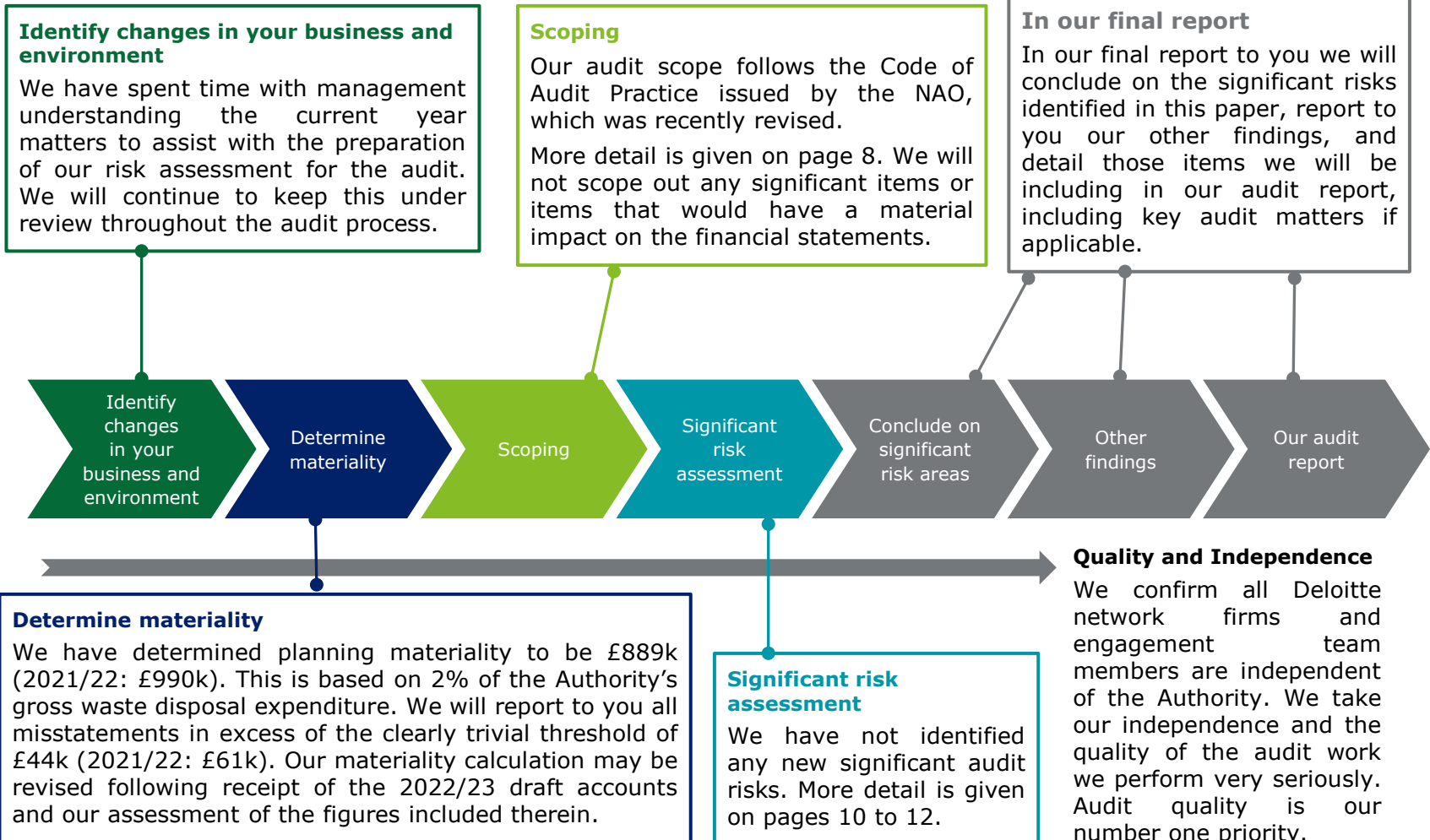
Why do we interact with the Members of the Authority?

As a result of regulatory change in recent years, the role of the Members of the Authority has significantly expanded. We set out here a summary of the core areas of Members' responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Members in fulfilling its remit.



Our audit explained

We tailor our audit to your business and your strategy



Scope of work and approach

We have four key areas of responsibility under the Audit Code

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA UK") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the NAO. The Authority will prepare its accounts under the Code of Practice on Local Council Accounting ("the Code") issued by CIPFA and Local Authority (Scotland) Accounts Authority Committee (LASAAC).

We are also required to issue separate report to the NAO on the Authority's separate return required for the purposes of its audit of the Whole of Government Accounts. Our fee quote assumes the Authority remains below the NAO threshold for additional procedures.

Conclusion on arrangements to secure economy, efficiency and effectiveness

We are required to consider the 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.

Opinion on other matters

We are required to report on whether other information published with the audited financial statements is consistent with the financial statements.

Other information includes information included in the statement of accounts, in particular the Narrative Report. It also includes the Annual Governance Statement which the Authority is required to publish alongside the Statement of Accounts.

In reading the information given with the financial statements, we take into account our knowledge of the Authority, including that gained through work in relation to the body's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources

Whole of Government Accounts

The Authority is not expected to be in scope for audit work.

If the Authority is over the threshold when instructions from NAO are released then our work on the Whole of Government Accounts return is carried out in accordance with instructions and typically focuses on testing the consistency of the return with the Authority's financial statements, together with the validity, accuracy and completeness of additional information about the Authority's transaction and balances with other bodies consolidated within the Whole of Government Accounts. We are also typically asked to report to the NAO on key findings from our audit of the accounts.

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 PSAA

Scope of work and approach – (continued)

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 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 Authority'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.

Significant risks

Revenue and expenditure recognition

Risk identified

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. For the Authority, we consider this significant risk to be the validity and accuracy of the variable element of the revenue relating to the actual direct tonnage charged to the four constituents councils.

Given that revenue is driven by the volume of activity during the year, this risk is also linked to the recognition of expenditure. The Authority has a significant contract with Cory Limited for the provision of waste management services. The risk includes the accuracy and completeness of expenditure calculated by Cory and whether the Authority is accounting for expenditure appropriately and consistently in line with activity.

The Authority approves every year a gross expenditure budget. Given the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals.

Our response

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

- We will obtain an understanding of and test the design and implementation of the key controls in place in relation to the recording of the accuracy and completeness of the tonnages;
 - We will review the contract in place between the Authority and Cory Limited;
 - We will perform focused testing in relation to the completeness of revenue, expenditure and accruals;
 - We will review the accuracy of the expenditure calculated by Cory;
 - As part of this focused testing, we will challenge any assumptions made in relation to year-end accruals;
 - We will also review expenses recorded in the final month of the year against previous year's trends to identify if there are any inconsistencies;
 - We will perform testing for unrecorded liabilities based on payments made and expenses recorded in the period after year end up to 60 days; and
 - In addition, we will review the year on year movement in expenditure and accruals and will investigate any significant movements.
-

Property Valuation

Risk identified

The Authority held £113.9m of property assets (land and buildings) and fixed plant and equipment at 31 March 2022 which are required to be recorded at current or fair value at the balance sheet date. This followed a significant increase resulting from a revaluation carried out during FY21/22. 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.

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority's land and buildings are revalued a minimum of every five years.

In addition, given the material value of the assets there is a risk that the valuation assumptions which are judgemental in nature may be materially misstated.

Our response

The Authority's valuations are considered each year by Wilks Head & Eve, with updates if required. We will perform the following procedures:

- Assess their qualifications, objectivity and experience and assess whether the valuation performed is consistent with accounting requirements and the Royal Institute of Chartered Surveyors "Red Book" valuation standards.
 - Evaluate the arrangements in place around the property valuation as part of the audit.
 - Test the design and implementation of key controls in place around the property valuation and we will understand how the Authority assures itself that there are no material impairments or changes in value for the assets not covered by the valuation.
 - Use our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the year-end valuation of the Authority's properties, including whether the assumptions that there is no material movements from the prior year is appropriate.
 - We will consider the presentation of revaluation movements and impairments, taking into account revaluation reserves for individual assets, and the disclosures included in the financial statements.
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Significant risks – (continued)

Management override of controls

Risk identified

In accordance with ISA 240 (UK and Ireland) 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 and areas of audit interest: completeness of expenditure, valuation of the Authority's estate and the pension liability. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Our response

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

- We will test the design and implementation of key controls in place around journal entries and management estimates;
- We will risk assess journals and select items for detailed follow up testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest;
- We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting;
- We will review accounting estimates for biases that could result in material misstatements due to fraud;
- We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment; and
- We will use our data analytics profiling to review ledger postings throughout the year, with focus on identifying any manual adjustments to revenue at the period end, or reversing entries that could be indicative of manipulation and management override.

Other areas of audit focus

Pension liability valuation

Risk identified

The Authority is part of the Local Government Pension Scheme administered by London Pension Fund Authority. The Authority recognised a pension liability of £12.0m at 31 March 2022 which is subject to change as at 31 March 2023. The Code requires that Authority's year end carrying value should reflect the appropriate fair value at that date.

Also pension assumptions are a complex and judgemental area and the calculation is reliant on accurate membership data provided to the actuary.

London Pension fund Authority act as the Authority's expert actuary, who produce a report outlining the liability and disclosures required for each local authority.

Our response

- We will carry out a separate, detailed risk assessment of each of the individual components of the calculation (for example market assumptions, membership data, assets and liabilities) using a developed methodology which takes into account factors such as an assessment of the actuary.
- We will also liaise with the scheme auditor on the results of their audit procedures on the scheme as a whole.
- We will consider the make-up of the pension assets and the extent to which the asset types have been valued based on observable market prices or using estimation and judgement in the valuation and consider the extent of uncertainty in the asset valuation and the impact on our approach.
- We scope our work, including the nature and extent of our actuarial specialist's involvement, in a way which responds to this detailed risk assessment. Should our risk assessment change our overall audit approach in respect of testing pensions, we will notify the Members.
- We will consider how the valuation takes into account the discrimination rulings (McCloud and Goodwin), including the consultation on changes to the LGPS scheme to address the McCloud ruling, and whether adequately reflected in the valuation.
- We will review the disclosure based on the IAS 19 report issued to the Authority by the actuary and we will assess the competence and objectivity of the work of the actuary.

Other areas of audit focus – (continued)

Value for Money

We are required to consider the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. In accordance with Code of Audit Practice 2020 and related Auditor Guidance Note 03 (AGN03), we are required to:

- Perform work to understand the Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
 - 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; and
 - 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. Due to the timing of this report, this has not been possible to complete prior to its issue, and we will report to a later meeting on any matters arising from this work.
-

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 significant risk areas, as outlined above.

We have obtained a deep understanding of your business, its environment and of your processes in expenditure, cash handling, revenue, capital expenditure and payroll enabling us to develop a risk-focused approach tailored to Western Riverside Waste Authority.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve IT specialists, pension and valuations experts to support the audit team in our work on understanding the IT environment and revaluation of fixed assets.

In order to deliver a quality audit to you, the core audit team receives tailored learning to develop their expertise in audit skills. This includes making the team aware of recent sector developments, how accounting rules are applied to a

Authority's and our specific auditing approaches for local authorities.



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 report is designed to establish our respective responsibilities in relation to the financial statements 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 the audit plan, including key audit judgements and the planned scope.

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 Members.

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

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

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

Use of this report

This report has been prepared for the Members of the Authority, 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.

Mo Ramzan

for and on behalf of Deloitte LLP
Birmingham| 1 June 2023

Appendices



Appendix 1 - Fraud responsibilities and representations

Responsibilities explained



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 the risk of fraud in revenue recognition, the accuracy of accrued income, and management override of controls as a key audit risk for your organisation.



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 Members:

- 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 (continued)

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 those charged with governance 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.



Internal audit

- Whether internal audit specialist have knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain their 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.

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:

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 Authority and will reconfirm our independence and objectivity to the Authority for the year ending 31 March 2023 in our final report to the Members of the Authority.
Fees	Details of the fees proposed for the period are presented below.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Authority'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 Authority, its members, senior managers and affiliates, and have not supplied any services to other known connected parties.

	2022/23 £	2021/22 £
Audit fee (including Value for Money) *	12,058	12,058
Proposed increase to scale fee due to changes in work required **	10,000	8,000
Proposed fees for targeted/specialist work (Valuation) ***	5,000	6,000
Total audit fees	27,058	26,058

* The "scale fee" set by Public Sector Auditor Appointments Limited for the financial statement audit, including whole of government accounts and procedures in respect of the value for money assessment, is £12,058 (any further changes TBC), subject to fee variations for changing accounting and auditing requirements and the cost of actual delivery. We consider that the scale fees at present are significantly below the cost of delivery of the audit, and this has been recognised in the Redmond Review and proposals of MHCLG and PSAA.

** *Additional fees were incurred in previous years relating to a number of changes including the additional Covid-19 activities and the requirements of the revised Code of Audit Practice in particular, in respect of Value for Money, the increased requirements on audit of accounting estimates under the revised ISA 540, and wider regulatory changes increasing the cost of audit delivery. These have been agreed with the Authority and are awaiting final approval by PSAA. The majority of these are expected to be recurring alongside the impact of changes to auditing standards and regulatory developments in 22/23.*

*** *In 2021/22 additional audit work was required relating to input for the Valuation being undertaken by the Authority. This continues to be a significant risk for the audit with specialist input likely to be required.*

Appendix 3 - Revisions to auditing standards coming into effect

ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement

The International Auditing and Assurance Standards Board (IAASB) issued a revised risk assessment standard in December 2019, that takes effect for periods commencing on or after 15 December 2021. For most entities, this will be December 2022 year ends and later. The FRC has adopted the standard in the UK with minimal additions.

The revision was made to respond to challenges and issues with the current standard and requires a more robust risk identification and assessment. We had already incorporated many of the changes into our methodology in advance of the standard being introduced, but we summarise on the next few slides some of the areas where this may impact our audit.

“The IAASB recognizes the importance, and also the complexity, of the auditor’s risk assessment process”

IAASB’s basis for conclusions, ISA 315

Area of change	Impact on our audit	Impact on the entity
New requirement to evaluate the 4 entity-level components of internal control	<p>Whilst we have always been required to gain an understanding of the entity and its environment, including its internal controls, the new standard is more prescriptive on the need to go further and evaluate the 4 entity level controls components: the entity’s control environment, risk assessment process, monitoring of internal control, and information system.</p> <p>This could lead to an increase in the number of relevant controls.</p>	<p>You will need to consider the adequacy of your entity-level controls, and documentation thereof.</p> <p>You should also expect more granular inquiries regarding the control environment.</p>
Enhanced consideration of the types of relevant controls	<p>Overall we expect to identify an increased number of relevant controls, particularly for controls designed to address risks at the higher end of the spectrum of inherent risk and controls over reconciliations. Where new relevant controls are identified, we may also identify control deficiencies and need to consider the effect of these.</p>	<p>You should expect more challenge of controls, particularly over complex accounting estimates, financial reporting and complex or highly automated business processes.</p>

Revisions to auditing standards coming into effect (continued)

ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement

Area of change	Impact on our audit	Impact on the entity
Enhanced understanding of IT and General IT controls	<p>As we identify more relevant controls, it is likely there will be more relevant IT controls (e.g. automated controls) which themselves rely on underlying General IT Controls (GITCs).</p> <p>We may need more IT specialist involvement to gain an enhanced understanding of IT controls and GITCs, particularly where there are a high volume of automated transactions in the entity. Similarly, where new IT systems come into scope, the likelihood is that there will be an increase in the number of deficiencies identified and action will be needed to determine the appropriate response.</p>	You should expect more challenge over the effectiveness of your GITCs, including how these are monitored.
New approach to scoping account balances, classes of transactions and disclosures	We may now identify some account balances as “material but not significant” where we do not identify a risk of material misstatement, but where we are required to perform some substantive testing.	Limited impact on the Authority for FY22/23.
Revised definition of a significant risk, focused on risks at the upper end of a spectrum of inherent risk	We do not anticipate there being a significant increase in the number of significant risks identified, but where there are more material judgements or estimates being made and a significant risk has not been identified previously, we may conclude there is a significant risk.	Limited impact on the Authority for FY22/23.
Stand back requirement and increased focus on professional scepticism	Our audit approach already acknowledges that risk assessment is an iterative process as well as emphasising the importance of professional scepticism. We will use this as an opportunity to challenge ourselves on the evidence that professional scepticism has been applied through the risk assessment processes, including as part of the stand back assessment.	You should expect more challenge of the evidence provided in respect of our risk assessment, including revisiting this towards the concluding stage of the audit.

Revisions to auditing standards coming into effect

ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

The Financial Reporting Council (FRC) issued a revised fraud standard in May 2021, that takes effect for periods commencing on or after 15 December 2021 (i.e. December 2022 year ends).

Many of the revisions provide increased clarity as to the auditor's obligations and codify existing expectations or best practice. The updates to the ISA do not include any changes relating to proposals in the Government's White Paper regarding auditor reporting on a statement by directors on the steps they have taken to prevent and detect material fraud.

We summarise on the next few slides how this will impact our audit.

Area of change	Impact on our audit	Impact on the entity
Fraud inquiries	<p>In addition to the pre-existing required enquiries, we are now explicitly required to make inquiries of management or others at the entity who handle whistleblowing.</p> <p>We also required to discuss the risks of fraud with those charged with the governance, including those risks specific to the entity's business sector.</p>	<p>You should expect further challenge in relation to who we speak to in relation to fraud at the entity, including more focus on entity/sector specific risks.</p>
Engagement team discussions	<p>The revised ISA (UK) emphasises that the pre-existing audit team fraud discussion should explicitly include an exchange of ideas about fraud, incentives to commit fraud, and how management could perpetrate and conceal fraud.</p> <p>There is also an explicit requirement for the engagement partner to consider whether further fraud discussions should be held at later stages of the audit.</p>	<p>You should expect increased challenge of the controls and processes in relation to the entity's own fraud risk assessment and the documentation of that assessment.</p>

Revisions to auditing standards coming into effect

ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Area of change	Impact on our audit	Impact on the entity
Identified or suspected fraud by a key member of management	The revised ISA (UK) clarifies that if we identify or suspect fraud by a key member of management this may be qualitatively material.	Further challenge in relation to identified or suspected fraud by a key member of management.
Involvement of specialists	<p>We are explicitly required to determine whether the engagement team needs specialised skills and knowledge:</p> <ul style="list-style-type: none"> • To perform the fraud risk assessment procedures, to identify and assess the risk of material misstatement due to fraud, to design and perform audit procedures to respond to those risks or to evaluate the audit evidence obtained; or • Where a misstatement due to fraud or suspected fraud is identified. 	There is likely to be more interaction with fraud specialists as part of our planning procedures.
Journal entry testing	<p>We were already required to test the appropriateness of journal entries and other adjustments made in the preparation of the financial statements and make inquiries of personnel.</p> <p>The revised ISA (UK) clarifies that our selection process should consider specifically both automated and manual journals, consolidation adjustments (in the preparation of group financial statements), and post-closing entries.</p> <p>The standard also emphasises that when making inquiries about inappropriate or unusual activity relating to the processing of journal entries and other adjustments, we should make inquiries of individuals with different levels of responsibility in the financial reporting process.</p>	<p>You should expect more challenge on GITCs over the identification and classification of automated and manual controls, especially where there are IT deficiencies.</p> <p>There will also be more inquiries with people at different levels of responsibility at the entity.</p>

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Area of change	Impact on our audit	Impact on the entity
Representations from those charged with governance	We will request an additional representations from those charged with governance regarding their responsibilities for the prevention and detection of fraud.	You should expect updated representations from those charged with governance that they believe they have appropriately fulfilled their responsibilities to design, implement and maintain internal control to prevent and detect fraud.

Climate Change and the impact on public sector bodies

The NAO has published a guide for the Authority on climate change risk

Issue

Climate action failure was ranked as the most concerning global risk in the World Economic Forum's Global Risk Report 2021. Climate change is not a future concern, and will only continue to escalate in significance in future. Climate change risks are impacting all government organisations in some form and so it is vital that organisations engage now with climate related risks and opportunities.

The government has committed to achieving 'net zero' greenhouse gas emissions by 2050, and a challenge of this scale will require transformative change to the UK economy. There are a number of departments across government that are central to government's response to climate change. However, the all-encompassing nature of achieving net zero means that all government bodies have a role to play.

The National Audit Office has published "Climate change risk: A good practice guide for Audit and Risk Assurance Committees" (<https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/>) to help authority's recognise how climate change risks could manifest themselves and support them in challenging management on their approach to managing climate change risks.

There are specific risk management principles around governance and leadership, integration, collaboration and best information, risk treatment, risk monitoring, risk reporting and continual improvement. Key climate change considerations are noted for each principle, along with example questions which an authority can ask officers and illustrative examples.

In addition to several questions for consideration in drafting the annual report, specific questions on the financial statements impact include:

- Where climate change risks give rise to a material financial impact, is this appropriately and accurately reflected in the financial statements? For example, an identified risk of rising sea levels and an increase in flooding could impact the valuation of buildings residing near to a floodplain and may require significant impairments.
- Has management fully considered the areas within their financial statements which could be impacted by climate change risks?
- Has management clearly explained material assumptions and uncertainties relating to estimates affected by climate change? For example, does it include relevant sensitivity analysis so users can appreciate the scale of impact.
- Where climate change has significantly affected the valuation of an organisation's assets and liabilities, is this adequately disclosed?
- Where climate change could affect an organisation's ability to continue to operate, is there adequate and appropriate disclosure in the accounting policies on the organisation's going concern status?

Next steps

- We recommend the Authority reviews the guide and consider what assurance they need in this area, including whether financial statement impact and disclosures have been appropriately considered by the Authority. Additional guidance on the impact of climate change for finance professionals is available in Deloitte's free training materials prepared in partnership with the ICAEW at <https://deloitte.co.uk/climatechange/>
- In our financial statement audit work, we will consider relevant impacts, including as part of our review and challenge of property valuation assumptions on Modern Equivalent Asset requirements.

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