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Dorset Councils Partnership

Planning report to the Joint Advisory Accounts and Audit Committee for the year ending 31 March 2019

25 March 2019

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Introduction

The key messages in this report:

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

- A robust challenge of the key judgements taken in the preparation of the 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 Joint Advisory Accounts and Audit Committee for the 2019 audit of Dorset Councils Partnership (the Partnership), consisting of: North Dorset District Council, West Dorset District Council and Weymouth and Portland Borough Council. We would like to draw your attention to the key messages of this paper:

Audit plan	• We are developing our understanding of the Partnership through discussion with management and review of relevant documentation from across the Partnership. • Based on these procedures, we have developed this plan in collaboration with the Partnership to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Partnership.
Key risks	• We have taken an initial view as to the significant audit risks the Partnership faces. These are presented as a summary dashboard on page 11.
Regulatory change	• Our audit is carried out under the Code of Audit Practice issued by the National Audit Office (NAO). • We will update management and the Committee with sector and technical updates as they arise.

Responsibilities of the Joint Advisory Accounts and Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Joint Advisory Accounts and Audit Committee?

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

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

- 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.

Integrity of reporting

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

Internal controls and risks

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

Oversight of internal audit

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

Whistle-blowing and fraud

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

Our audit explained

We tailor our audit to your Partnership and your strategy

Identify changes in your Partnership and environment. We have spent time with management understanding the current year matters and prepared our risk assessment for the audit; we will continue to keep this under review throughout the audit process.

Scoping

We anticipate our scope to be in line with the Code of Audit Practice issued by the NAO.

In our final report

In our final report to you we will conclude on the significant audit risks identified in this paper and report to you our other findings.

Determine materiality

We have determined a materiality based on 2% of total expenditure for each Council.

	Materiality	Misstatement reporting threshold
North Dorset	£624k	£31k
West Dorset	£1,298k	£64k
Weymouth and Portland	£1,117k	£55k

We will report to you any misstatements above the misstatement reporting threshold. We will report to you misstatements below the threshold if we consider them to be material by nature. For further detail on materiality, see page 9.

Significant risk assessment

We will identify significant audit risks in relation to the Partnership and plan our audit response to meet these risks (page 11 onwards).

Quality and independence

We confirm all Deloitte network firms are independent of the Partnership. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of work and approach

We have the following key areas of responsibility under the Audit Code of Practice

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 Partnership will prepare its accounts under the Code of Practice on Local Council Accounting ("the Code") issued by CIPFA and the Local Authority (Scotland) Accounts Authority Committee (LASAAC).

We are also required to issue a separate assurance report to the NAO on the Partnership's separate returns required for the purposes of its audit of the Whole of Government Accounts and departmental accounts.

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

We will review the annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Partnership.

Value for money conclusion

We are required to satisfy ourselves that the Partnership has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

To perform this work, we are required to:

- plan our work based on consideration of the significant risks of giving a wrong conclusion; and
- carry out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VFM.

Our work therefore includes ongoing detailed risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focused on the risks identified.

As part of our planning, we have identified that there are potential VFM risks in relation to Local Government Reorganisation, which includes inappropriate expenditure on revenue and capital items prior to the date of merger, and inappropriate asset transfers and disposals. Testing to address this risk will include:

- Review of the capital programme;
- Review of asset transfers/disposals in the year;
- Review minutes of meetings; and
- Complete capital additions, disposals, and repairs and maintenance testing.

Whole of Government Accounts

We are required to issue a separate assurance report on the Partnership's separate return required to facilitate the preparation of the Whole of Government Accounts.

Our work on the return is carried out in accordance with instructions issued by the NAO and typically focuses on testing the consistency of the return with the Partnership's financial statements, together with the validity, accuracy and completeness of additional information about the Partnership'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. The NAO has not yet issued its instructions for the current year.

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board'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 Partnership'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 Partnership completes the Code checklist during drafting of its financial statements.

We would like the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feed back any comments to management.

Value for money and other reporting

The Code of Audit Practice requires us to report by exception in our audit report any matters that we identify that indicate the Partnership has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Obtain an understanding of the Partnership and its environment including the identification of relevant controls.

Identify risks and controls that address these risks.

Carry out "design and implementation" work on relevant controls.

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks.

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

Continuous communication and reporting

Planned timing of the audit

Planning	Interim audit	Year-end fieldwork	Reporting
• Planning meetings to inform risk assessment and identify judgemental accounting issues. • Document understanding of key business cycles and changes to financial reporting. • Document design of key controls. • Review of key Partnership documents including the Joint Advisory Accounts and Audit Committee. • Planning work for value for money responsibilities. • Review of internal audit reports completed so far.	• Document implementation of key controls. • Review of Partnership year to date performance / events. • Substantive testing of limited areas including fixed asset additions and valuations, expenditure, payroll and certain areas of grant income. • Update on value for money responsibilities. • Review of Partnership accounting policies. • Review of internal audit reports completed so far.	• Review of Partnership quarter 4 performance / events. • Substantive testing of all areas. • Finalisation of work in support of value for money responsibilities. • Detailed review of annual accounts and report, including Annual Governance Statement. • Review of final internal audit reports and opinion. • Completion of testing on significant audit risks.	• Final Committee meeting. • Issue final Committee paper. • Issue audit report. • Issue Annual Audit Letter. • Audit feedback meeting.
2018/19 Audit Planning	Planning report to the Committee	Final report to the Committee	
December - March	**March - April**	**June**	**July**

Ongoing communication and feedback

Materiality
Our approach to materiality

Basis of our materiality benchmark

- The audit lead has determined materiality as outlined in the table below. The determination of materiality is based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of Total Expenditure up to the surplus/deficit on provision of services based on the 2017/18 audited accounts as the benchmark for determining materiality. Materiality will be reassess at the start of our final audit visit any changes to our materiality will be communicated to those charged with governance.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of the misstatement reporting threshold outlined on this page.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

	Materiality (£000s)	Misstatement reporting thresholds (£000s)
North Dorset	624	31
West Dorset	1,298	64
Weymouth and Portland	1,117	55

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

Our risk assessment process

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

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- the disclosures made by the Finance and Governance Committee in their previous Committee report;
- our assessment of materiality;
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements; and
- the Authorities' actual and planned performance on financial, quality and other governance metrics compared to its peers.

Typical principal risk and uncertainties

- Impairment
- IT
- Data loss
- Regulatory
- Economic environment
- Health and Safety
- Supply chain

IAS 1 Critical accounting estimates

- Impairment
- Provisions and contingencies
- Revenue recognition

Joint Advisory Accounts and Audit Committee

- Management override of controls.
- Completeness and cut-off of expenditure
- Property valuations

Changes in your business and environment

- From 1 April 2019 the individual councils will cease to exist as they will be subsumed into two new Unitary Authorities following the Local Government Reorganisation. This will be a significant change to the Partnership and may result in a number of redundancies and position changes.
- In addition, 2018/19 will also be the first financial period that the Partnership will adopt both International Financial Reporting Standards 9 and 15 (Financial Instruments and Revenue from Contracts with Customers respectively).
- Finally, the Partnership will need to consider the impacts of BREXIT when preparing its financial statements.

Significant audit risks

Significant audit risk dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Expected to be included in our report to the Joint Advisory Accounts and Audit Committee	Slide no.
Completeness and cut-off of expenditure.	✓	✓	D+I	⚠	✓	12
Management override of controls	✓	✓	D+I	⚠	✓	13
Property valuations	✓	✗	D+I	⚠	✓	14

D+I: Assessing the design and implementation of key controls

Low Level of Judgement ⚠

Medium Level of Judgement ⚠

High Level of Judgement ⚠

Significant audit risks
Risk 1 – Completeness and cut-off of expenditure

Risk identified	Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness and cut-off of expenditure and completeness and valuation of accruals. In February 2018, the Partnership approved a budget with a net cost of service of £28.9m (North: £6.1m, West: £13m, Weymouth and Portland: £9.8m). As at September 2018, the Partnership reported an underspend of £0.43m against this position. Given the Partnership's current budget position and the pressures across the whole of the public sector, there is an inherent fraud risk associated with the under recording of expenditure in order for the Partnership to report a more favourable year-end position. There is a risk that the Partnership may materially misstate expenditure through the accruals and provisions balance, including year-end transactions, in an attempt to report a more favourable year-end position.
Our response	Our work in this area will include the following: We will obtain an understanding of the design and implementation of the key controls in place in relation to completeness and cut-off of expenditure; We will perform focused testing in relation to the completeness and cut-off of expenditure including detailed reviews of provisions and accruals; and, We will review and challenge the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded expenditure.

Significant audit risks
Risk 2 – 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 Partnership's controls for specific transactions. The key judgements in the financial statements are those which we have selected to be the significant audit risks: completeness and cut-off of expenditure; and property valuation. These are inherently the areas in which management has the potential to use their judgement 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 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; and We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business for the Partnership, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Significant audit risk
Risk 3 - Property valuation

Risk identified	The Partnership held £138.1m of property assets at 31 March 2017 which increased to £138.2m as at 31 March 2018. The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. A property valuation has been completed by GVA to value a basket of property assets as at 1 April 2018 across the partnership as part of the five year revaluation cycle. The valuation and remaining assets are then reviewed by the Partnership’s property management team to identify any material movements between the valuation date and the end of the financial year. It is currently not clear what impact the current valuation may have.
Our response	We will test the design and implementation of key controls in place around the property valuation and how the Partnership assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation; We will review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals; We will use our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the assumptions used in the year-end valuation of the Partnership’s Land and Buildings; and We will test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

Other areas of audit interest
Pensions liability valuation

Risk identified	The Partnership is part of the Local Government Pension Scheme operated by Dorset County Council. The Partnership recognised a combined pensions liability of £122.8m at 31 March 2017 which decreased to £109.8m as at 31 March 2018. The Code requires that the year-end carrying value should reflect the appropriate fair value at that date. Barnett Waddingham acts as the Partnership's expert actuary, which produces a report outlining the liabilities and disclosures required for each Council.
Our response	We will test the design and implementation of key controls in place around the pension liability valuation and the inclusion of the actuary's report in the financial statements. We carry out a separate, detailed risk assessment of each of the individual components of the calculation (for example market assumptions, membership data) using a developed methodology which takes into account factors such as an assessment of the actuary. This will be carried out centrally by our actuarial experts and ascertain whether there have been any significant changes expected in the membership. 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. In relation to pension assets, we will utilise our Pension Asset Centre of Excellence to ensure that assets are tested in a standardised way which meets the expectations of our regulators.

Other areas of audit interest

Local government reorganisation

Risk identified	Following a Local Government Reorganisation (LGR) Dorset councils are due to be formed into two Unitary Councils, with some assets and services also being devolved to Town and Parish Councils. We recognise that discussions are still ongoing with regard to the final details and arrangements which will impact management time. There is also a risk of staff leaving or taking up new jobs either before the year-end or shortly following the year-end which may impact the final audit period.
Our response	We have agreed with management a timetable that ensures the audit work is completed in a timely manner; in addition early testing has been completed as part of our interim audit. We will monitor the situation and update management and the relevant Committee post-merger, if we think this risk is becoming an issue which will impact on our ability to complete the accounts either within the required timeframe or within the estimated fees set out later in this report.

Value for money

Risk identified	Under the NAO Code, we are required to report whether, in our opinion: the individual Councils have made proper arrangements to secure economy, efficiency and effectiveness in their use of resources. The Code and supporting auditor guidance note requires us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. As previously detailed a potential risk has been identified in relation to Local Government Reorganisation.
Our response	Our work in this area will include: • A full understanding of the Partnership's transformation programmes and the related considerations to achieve value for money; • Specific testing to address the Local Government Reorganisation risk as previously detailed; • High level interviews with senior operational staff and internal audit as required; • Review of the Partnership's draft Annual Report, Annual Governance Statement and Council papers and minutes; and • Consideration of the Partnership's financial results for the year.

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:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

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 Partnership.

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.

Use of this report

This report has been prepared for the Partnership, 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.

Other relevant communications

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

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Bristol, March 2019

Appendices

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 audit risks section of this document, we have identified the risk of fraud to be the completeness and cut-off of expenditure, and management override of controls.

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 Partnership:

- 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.

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 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.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

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

Those charged with governance

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

Fees and independence

As part of our obligations under International Standards on Auditing (UK), and the Companies Act, 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 Dorset Councils Partnership and will reconfirm our independence and objectivity for the year ending 31 March 2019 in our final report to those charged with governance.
Fees	Details of the fees proposed for the period have been presented below.
Non-audit services	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	As part of our obligations under International Standards on Auditing (UK) and the APB’s Ethical Standards we are required to report to you on all relationships (including the provision of non-audit services) between us and the audited entity.

The professional fees expected to be charged by Deloitte LLP in the period from 1 April 2018 to 31 March 2019 are as follows:

	Current year £ (excluding VAT)
North Dorset District Council - Financial statement audit including Whole of Government Accounts and procedures in respect of Value for Money assessment	30,912
West Dorset District Council - Financial statement audit including Whole of Government Accounts and procedures in respect of Value for Money assessment	33,091
Weymouth and Portland Borough Council - Financial statement audit including Whole of Government Accounts and procedures in respect of Value for Money assessment	33,091
Total audit	**97,094**
Total fees	**97,094**

We confirm all Deloitte network firms are independent of the Partnership. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority

Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2018 the Financial Reporting Council ("FRC") issued individual reports on each of the eight largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2017/18 cycle of reviews.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, not just on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings, arising from the AQR inspections and our own internal reviews to a wider population; however, we need to do more to ensure these actions are embedded. In order to achieve this we have launched a more detailed risk identification process and our InFlight review programme. This programme is aimed at having a greater impact on the quality of the audit before the audit report is signed. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

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 2017/18 Audit Quality Inspection Report on Deloitte LLP

"The overall results of our reviews of the firm's audits show that 76% were assessed as requiring no more than limited improvements, compared with 78% in 2016/17. Of the FTSE 350 audits we reviewed this year, we assessed 79% as achieving this standard compared with 82% in 2016/17. We are concerned at the lack of improvement in inspection results. The FRC's target is that at least 90% of these audits should meet this standard by 2018/19."

"Where we identified concerns in our inspections, they related principally to aspects of group audit work, audit work on estimates and financial models, and audit work on provisions and contingencies. During the year, the firm has continued to develop the use of "centres of excellence", increasing the involvement of the firm's specialists in key areas of the audit. We have no significant issues to report this year in most of the areas we reported on last year."

"The firm has revised its policies and procedures in response to the revised Ethical and Auditing Standards. We have identified some examples of good practice, as well as certain areas for improvement."

The firm has enhanced its policies and procedures in the following areas:

- Increased use of centres of excellence ("CoE") involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- A new staff performance and development system was implemented with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

Our key findings in the current year requiring action by the firm:

- Improve the group audit team's oversight and challenge of component auditors.
- Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates.
- Strengthen the firm's audit of provisions and contingencies.

Review of firm-wide procedures. The firm should:

- Enhance certain aspects of its independence systems and procedures.