



## **Audit Committee Supplement**

Wyre Borough Council  
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**Audit Committee meeting on Tuesday, 28 September 2021 at 6.00 pm  
in the Council Chamber - Civic Centre, Poulton-le-Fylde**

6. **Report to Those Charged with Governance (ISA 260) 2020/21** (Pages 3 - 24)

Report of the Corporate Director Resources (Section 151 Officer).

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# Wyre Council

Report to the Audit Committee on the 2020/21 audit  
Issued on 24 September 2021 for the meeting on 28 September 2021

Deloitte Confidential: Government and Public Services

# Contents

## 01 Final report

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Introduction	3
Responsibilities of the Audit Committee	5
Our audit explained	6
Significant risks and areas of audit focus	7
Covid-19 pandemic	13
Value for money	14
Our audit report	15
Your annual report	16
Purpose of our report and responsibility statement	17

## 02 Appendices

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Independence and fees	19
Our other responsibilities explained	20
Value for Money deadline extension	21

# 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.

Pages 5

I have pleasure in presenting an update to the Audit Committee on the progress of our 2020/21 audit. The scope of our audit was set out within our planning report presented to the Committee in June 2021.

<b>Status of our Statement of Accounts audit</b>	<p>Our financial statement audit is progressing, however we will not have completed all audit procedures by 30 September 2021. The completion of the audit has been delayed due to audit team sickness and also delays in the delivery of some supporting working papers.</p> <p>We are working constructively with the Council to complete our work and we will provide the Committee with a verbal update on our progress at the meeting on 28 September 2021.</p>
<b>Status of our Value for Money audit</b>	<p>Our Value for Money work is on-going, and will be reported in our Auditor's Annual Report, within the three months of the signing of the audit opinion as specified under the National Audit Office Auditor Guidance Note 3.</p> <p>We have not identified to date any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.</p> <p>We intend to state in our opinion on the statement of accounts that our Value for Money work is on-going.</p>
<b>Conclusions from our testing</b>	<p>Our audit work is still ongoing and, at the time of writing this report, we do not have any significant issues to highlight to the Audit Committee. However, on completion of our procedures we will provide the Audit Committee with our final ISA260 report, which will update on our audit findings.</p>
<b>Narrative Report &amp; Annual Governance Statement</b>	<ul style="list-style-type: none"><li>• We are in the process of reviewing the Council's Annual Report &amp; Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.</li><li>• Currently, we have suggested a number of minor changes to management for consideration. We will review the updated Narrative Report and Annual Governance Statement on receipt from management and report back to the Audit Committee any further observations.</li></ul>

# Introduction

## The key messages in this report (continued)

### **Duties as public auditor**

- We did not receive any queries or objections from local electors this year.
- We have not identified any matters that would require us to issue a public interest report.
- We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.

### **Whole of Government Accounts**

- The Council is below the threshold for WGA reporting.

### **Impact of Covid-19 grants and change in significant risk assessment**

As part of our audit plan, presented to the Audit Committee in June 2021, we highlighted a need to better understand the impact of the Covid-19 grant funding arrangements at the Council. Following the issuance of the audit plan, we completed a risk assessment of Covid-19 funding streams. This risk assessment highlighted the need for the Council to make significant judgements around the recognition and treatment of Covid-19 grant funding in the 2020/21 financial statements. Given the level of judgement involved, we have decided to treat Covid-19 grant income as a significant audit risk. Further information regarding the work performed and our conclusions on this risk can be viewed on page 7.

Page 6

Paul Hewitson  
Audit Director

# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

To communicate audit scope

To provide timely and relevant observations

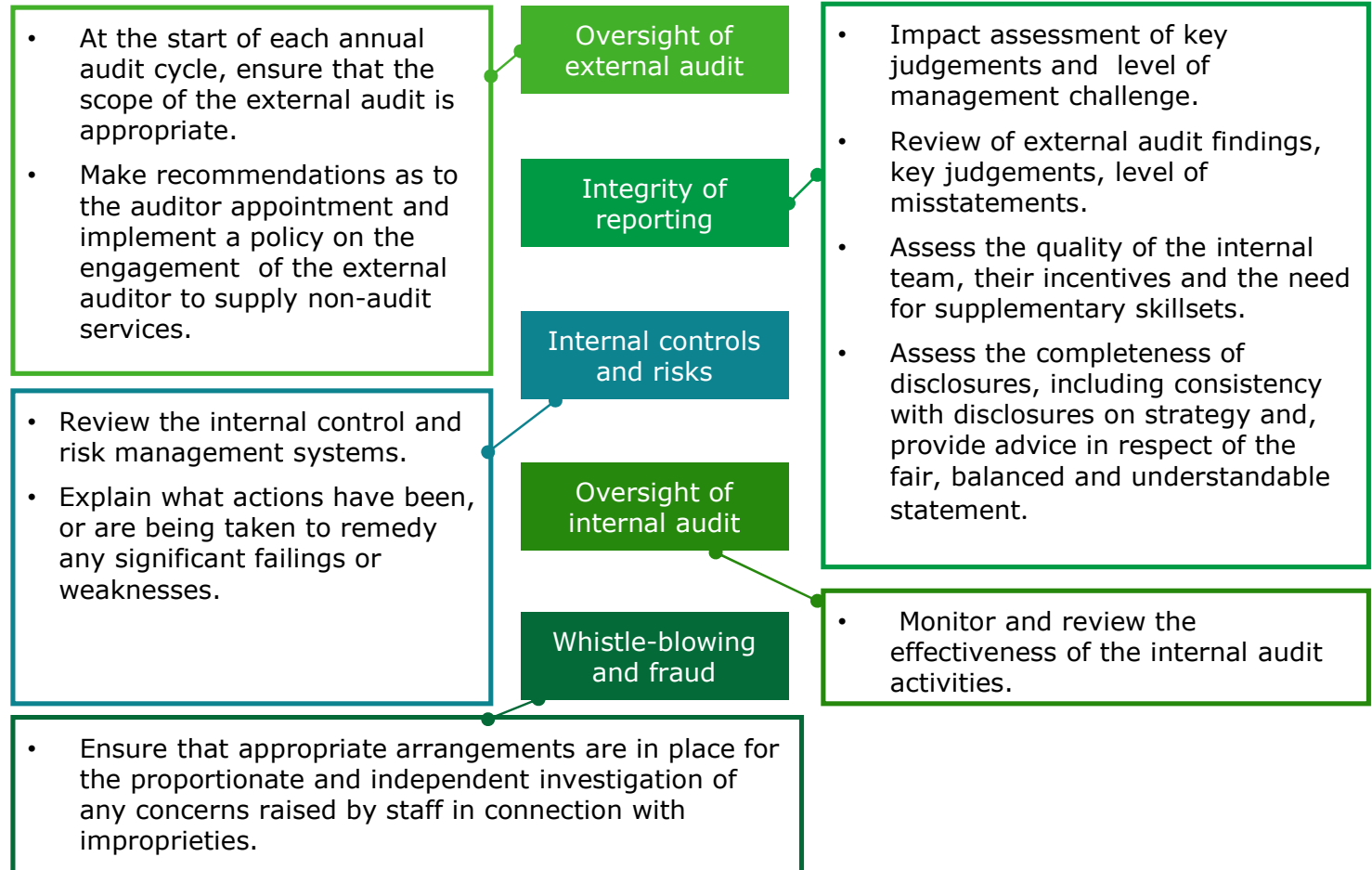
To provide additional information to help you fulfil your broader responsibilities

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



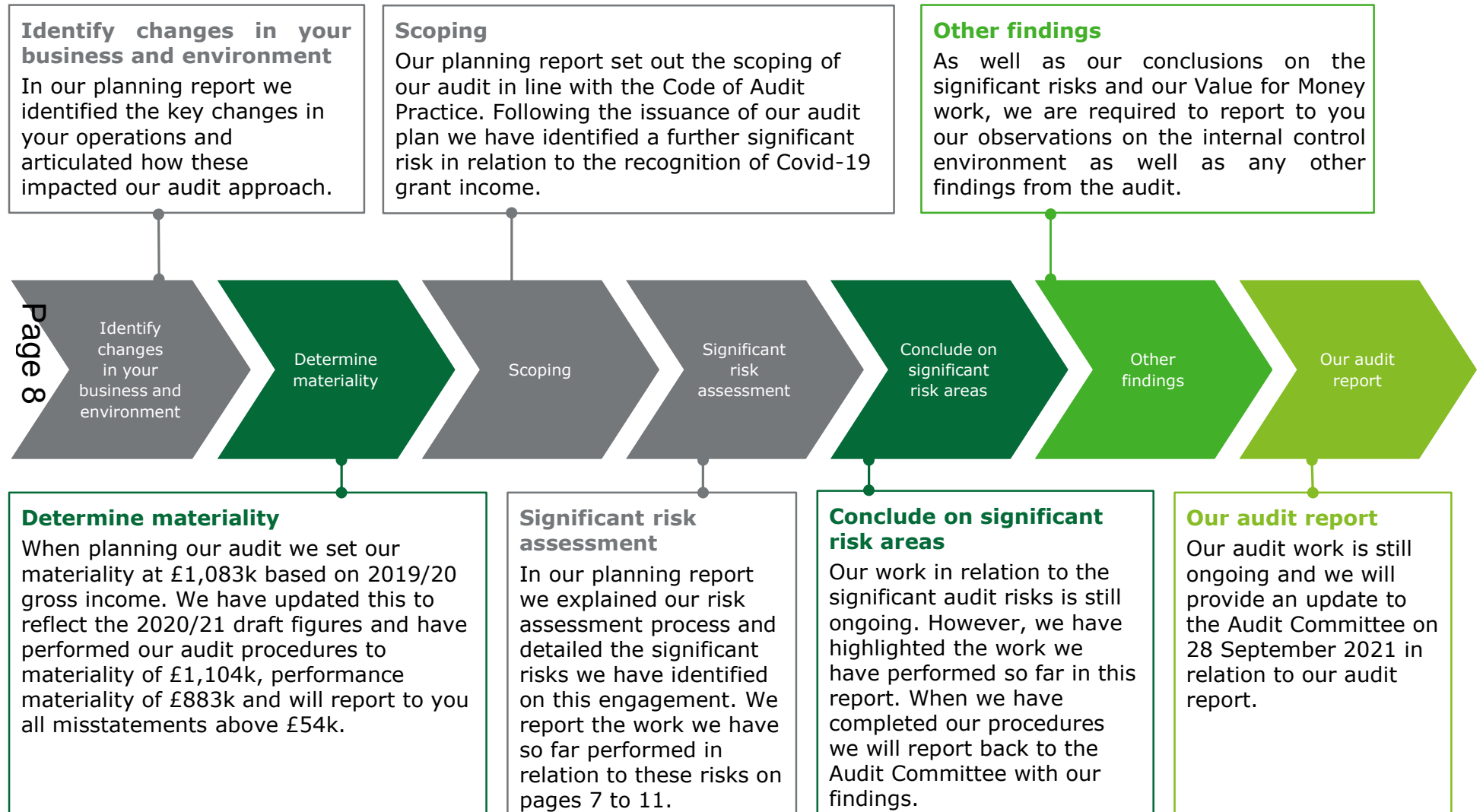
As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there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

Page 7



# Our audit explained

We tailor our audit to your organisation and your strategy





# Significant risks



## Recognition of Covid-19 grant income

<b>Risk identified</b>	<p>ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.</p> <p>We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2020/21 in response to the Covid-19 pandemic, there is no significant risk of fraud.</p> <p>We have pinpointed the significant risk to the completeness and accuracy of the funding recognised in the Council's financial statements and the completeness and accuracy of the agency arrangement disclosures, where the Council has acted as an agent on behalf of Central Government in administering Covid-19 grants.</p> <p>The key judgements for management are assessing:</p> <ul style="list-style-type: none"><li>• Any conditions associated with the Covid-19 grants; and</li><li>• Whether the Council is acting as a principal or agent in administering the Covid-19 schemes, and how this is subsequently recognised in both the Comprehensive Income and Expenditure Statement and Balance Sheet.</li></ul>
<b>Deloitte response and challenge</b>	<p>We are in the process of completing the following procedures:</p> <ul style="list-style-type: none"><li>• Assessing the design and implementation of the controls in relation to the accounting treatment of all Covid-19 related funding;</li><li>• Reviewing management's paper on the accounting treatment of each significant grant claim and challenging the appropriateness of the approach adopted;</li><li>• Testing a sample of Covid-19 grants and confirming these have been recognised in accordance with any applicable conditions, including appropriate recognition in both the Comprehensive Income and Expenditure Statement and Balance Sheet;</li><li>• Considering the adequacy of disclosures in the financial statements, including accounting policies and where relevant critical accounting judgement and key sources of estimation uncertainty disclosures;</li><li>• Testing the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as an agent, that:<ul style="list-style-type: none"><li>• Transactions have been excluded from the Comprehensive Income and Expenditure Statement;</li><li>• The Balance Sheet reflects the debtor or creditor position at 31 March 2021 in respect of cash collected or expenditure incurred on behalf of the principal; and</li><li>• The net cash movement at 31 March 2021 is included in the financing activities in the Cash Flow Statement.</li></ul></li></ul>
<b>Conclusion</b>	<p>At the time of writing this report, we have no matters to report to the Audit Committee in relation to this risk. However, we are still working through the procedures set out above and will highlight any issues to the Audit Committee in our final ISA 260 report.</p>

# Significant audit risks (continued)



## Inappropriate capitalisation of expenditure

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**Risk identified** There is an inherent fraud risk associated with the recording of expenditure in order for the Council to report a more favourable year-end position. One way that councils can manipulate the expenditure outturn is through the inappropriate capitalisation of revenue expenditure. Capital additions have increased by £1,342k in the year, and as a result we believe that if the Council were to inappropriately record expenditure it would be through the inappropriate capitalisation of revenue items.

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**Deloitte response and challenge** We are in the process of completing the following procedures:

- Reviewing the design and implementation of the controls in place in relation to the recognition of capital expenditure; and
- Sample testing capital additions in year, in order to assess whether the value disclosed is accurate and the expenditure meets the definition of capital expenditure.

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**Conclusion** At the time of writing this report, we have no matters to report to the Audit Committee in relation to this risk. However, the procedures set out above are still ongoing and we will highlight any issues to the Audit Committee in our final ISA 260 report.

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# Significant audit risks (continued)



## Valuation of property assets

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**Risk identified**

The Council is required to hold property assets within Property, Plant and Equipment and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

The Council held £41,455k of property assets (including land) in Property, Plant and Equipment at 31 March 2021, which is a decrease of £1,311k, when compared to 31 March 2020.

The Council also held £11,050k of Investment Properties at 31 March 2021, which is an increase of £4,277k, when compared to 31 March 2020.

The Council updates the valuation of its properties using a rolling revaluation programme. In 2020/21, the Council engaged its internal valuers to perform a full valuation of properties due for valuation under the Council's 5 year rolling programme of valuations. The effective date of this valuation was 1 April 2020.

For Investment Properties, the Council instructs its internal valuer to perform a full revaluation on an annual basis.

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**Deloitte response and challenge**  
9/11

We are in the process of completing the following procedures:

- Reviewing the design and implementation of the controls in place in relation to property valuations;
  - Considering the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
  - We have engaged our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets;
  - Testing a sample of key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation;
  - Reviewing assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
  - Considering the impact of Covid-19 on the valuation of property assets to assess whether, where necessary, the Council has reflected the impact in their valuations; and
  - Reviewing the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.
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**Conclusion**

At the time of writing this report, we have no matters to report to the Audit Committee in relation to this risk. However, we have not completed the procedures set out above and will highlight any issues to the Audit Committee in our final ISA 260 report.

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# Significant audit risks (continued)

## Management override of controls



**Risk identified** Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the Council, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Statement of Accounts.

**Deloitte response and challenge**

We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts, and note that:

- The Council's results throughout the year were projecting an overall underspend in operational areas; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Our work in relation to management override of controls is still ongoing, but the procedures we are performing are set out below:

- We are considering the overall control environment and 'tone at the top'.

**Journals**

- We are testing the design and implementation of controls in relation to journals and accounting estimates.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We are using Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

**Significant transactions**

- At the time of writing the report, we have not identified any material unusual transactions outside the normal course of business of the Council.

# Significant audit risks (continued)

## Management override of controls



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**Deloitte  
response  
and  
challenge****Accounting estimates**

- We are performing design and implementation testing of the controls over key accounting estimates and judgements.
- The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of property assets and the valuation of the pension liability, as discussed elsewhere in this report.
- We are reviewing accounting estimates for biases that could result in material misstatements due to fraud.
- We are testing accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures include comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

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**Conclusion**

At the time of writing this reporting, our work in relation to this risk is still ongoing. However, we have not identified any issues that warrant reporting to the Audit Committee. If any issues come to light following the presentation of this report we will formally highlight these to the Audit Committee.

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# Other areas of audit focus

## Pension liability valuation



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**Risk identified**

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Lancashire County Council Pension Fund, which is part of the Local Government Pension Scheme.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's Balance Sheet. Per the draft financial statements at 31 March 2021, this totalled £38,588k. As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the pension liability valuation being materially misstated.

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**Deloitte response and challenge**

Page 14

We are in the process of completing the following procedures:

- Agreeing the actuarial report for the Council produced by Mercers, the scheme actuary, to the Statement of Accounts pension disclosures.
- Reviewing the disclosures made in the Statement of Accounts against the requirements of the Code.
- Liaising with the audit team of Lancashire County Council Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council.
- Assessing the independence and expertise of the actuary supporting the basis of reliance upon their work.
- Reviewing and challenging the assumptions made by Mercers.
- Assessing the reasonableness of the Council's share of the total assets of the scheme by reference to the Pension Fund financial statements.
- Reviewing the accounting of the upfront pension contribution made by the Council to assess whether this is in line with the requirements of the CIPFA Code.

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**Conclusion**

At the time of writing this report, we have no matters to report to the Audit Committee in relation to this risk. However, we have not completed the procedures set out above and will highlight any issues to the Audit Committee in our final ISA 260 report.

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# Covid-19 pandemic

## Impact on reporting and our audit

<b>Impact on annual report and financial statements</b>	
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors issued a practice alert, as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This practice alert was withdrawn in September 2020. Valuation reports at March 2020 typically identified a need to consider potential impairments in future periods. Our work on property valuations (page 9) includes challenging whether the Council has appropriately considered the impact on the valuation (including any changes as a result of the pandemic and consequent service and organisational changes in the Council on the “modern equivalent asset” assumed in valuations).
Impact on pension fund investment measurement	In the prior year, we included an “emphasis of matter” paragraph in relation to the material uncertainty in relation to the valuation of the investment property assets held by the Pension Fund. As highlighted above, by September 2020 RICS considered that there was no longer material uncertainty over valuations and we have confirmed with the auditor of the Lancashire County Council Pension Fund that no material uncertainty has been included in the valuation reports they have received in relation to property assets. Therefore the material uncertainty in relation to assets held by the Pension Fund will not be included in 2020/21.
Narrative and other reporting issues	<p>We have considered how the Council has reflected the impact of the pandemic in its reporting, including:</p> <ul style="list-style-type: none"><li>• Narrative Report - discussion of the impact on services, operations, performance, strategic direction, resources and financial sustainability. Assessing whether this reflected the significant financial challenge that the Council has experienced.</li><li>• Accounts disclosures on the impact on judgements and estimation uncertainty.</li></ul> <p>We have made some minor recommendations for improving the disclosure in the Narrative Report. We will review the updated Narrative Report on receipt from management and report back to the Audit Committee any further observations.</p>
Events after the reporting period	Events continue to move swiftly, and the Council will need to consider the events after the Reporting Period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis. This is an evolving area and the Council will need to ensure that all events after the reporting period that need to be disclosed are done so up to the date of signing.



# Value for money

Our work is on-going and will be reported in our Auditor's Annual Report

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## Value for Money requirements

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

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, 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;

Page 16 • 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 Value for Money arrangements, which might include emerging risks or issues arising; and

- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

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## Status of our work

Our Value for Money work is on-going, and will be reported before 31 December 2021 in our Auditor's Annual Report, which is within the three month timeframe specified under the National Audit Office Auditor Guidance Note 3.

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# Our audit report

## The form and content of our report

Here we discuss how the results of the audit impact on our audit report. An overview of our financial statement audit work will be included in our Auditor's Annual Report.



### **Our opinion on the financial statements**

Our audit is ongoing with a number of judgemental/ significant areas of the audit still to be completed. We will update the Audit Committee when we have completed our procedures on the form of the Audit Opinion.



### **Emphasis of matter and other matter paragraphs**

Our audit is ongoing with a number of judgemental/ significant areas of the audit still to be completed. We will update the Audit Committee when we have completed our procedures on the form of the Audit Opinion.



### **Value for Money reporting by exception**

Our opinion will note that our Value for Money work is ongoing and will be reported in our Auditor's Annual Report.



### **Irregularities and fraud**

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019



# Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement..

Page 18

	Requirement	Deloitte response
Narrative Report	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> <li>• Organisational overview and external environment;</li> <li>• Governance;</li> <li>• Operational Model;</li> <li>• Risks and opportunities;</li> <li>• Strategy and resource allocation;</li> <li>• Performance;</li> <li>• Outlook; and</li> <li>• Basis of preparation</li> </ul>	<p>We are in the process of completing the following:</p> <ul style="list-style-type: none"> <li>• assessing whether the Narrative Report has been prepared in accordance with CIPFA guidance;</li> <li>• reviewing the Narrative Report to assess whether it is consistent with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</li> </ul> <p>Based on our initial review we have suggested a number of minor changes to the Narrative Report, which management are considering. We will review the updated Narrative Report on receipt from management and report back to the Audit Committee any further observations.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We are in the process of completing the following:</p> <ul style="list-style-type: none"> <li>• assessing whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA guidance, is misleading, or is inconsistent with other information from our audit.</li> </ul> <p>Based on our initial review we have suggested a number of minor changes to the Annual Governance Statement, which management are considering. We will review the updated Annual Governance Statement on receipt from management and report back to the Audit Committee any further observations.</p>

# 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 help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Statement of Accounts and Narrative Reporting.
- Our internal control observations.
- Other insights we have identified from our audit.

## The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

## Use of this report

This report has been prepared for the Council, 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.

## What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.

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, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

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

**Deloitte LLP**

Newcastle upon Tyne | 24 September 2021

# Appendices

Page 21

# Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

<b>Independence confirmation</b>	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and our objectivity is not compromised.
<b>Fees</b>	Details of the agreed fees for services for the period have been presented below.
<b>Non-audit services</b>	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
<b>Relationships</b>	We have no other relationships with the Council, its directors, and senior managers, and have not supplied any services to other known connected parties.

Page 21

The professional fees earned by Deloitte in the period from 1 April 2020 to 31 March 2021 are as follows:

	<b>2020/21</b>	<b>2019/20</b>
	<b>£</b>	<b>£</b>
Code – Audit fee	37,470	37,470
Value for Money	TBC	-
<b>Total audit fees*</b>	<b>37,470</b>	<b>37,470</b>
Housing Benefit Assurance Process fee	-	8,000
<b>Total non audit fees</b>	<b>-</b>	<b>8,000</b>
<b>Total fees</b>	<b>37,470</b>	<b>45,470</b>

\*The fees noted above do not reflect the impact of the additional procedures we have been required to perform as a result of the Covid-19 pandemic and the additional VFM procedures required in year due to the changes in the VFM guidance. We will agree a fee variation with management after the completion of the audit in relation to these areas and report this back to the Audit Committee for comment.

# Our other responsibilities explained

## Fraud responsibilities and representations



### 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. 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.

### Required representations:

We have asked the Audit Committee to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the Council.

We have also asked the Audit Committee to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

We identified the risk of fraud in the recognition of COVID-19 grant income, the incorrect capitalisation of revenue expenditure and management override of controls as significant audit risks.

During course of our audit, we have had discussions with management, those charged with governance and Internal Audit.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

### Concerns:

Our audit procedures are still ongoing and we will report fully to the Audit Committee in our final ISA 260.



# Value for Money deadline extension

## Letter to the Audit Committee highlighting Value for Money deadline extension



Dear Audit Committee

The National Audit Office issued guidance to auditors on 16 April 2021 setting out a revised timetable for completion of work on arrangements to secure value for money. This revised timetable reflected the impact of the ongoing pandemic on preparers and auditors of accounts. That guidance established that the Auditor's Annual Report should be published within three months of the signing of the Audit Opinion. Therefore we have not yet issued our Auditor's Annual Report. Under the 2020 Code of Audit Practice, we are required to provide this letter setting out the reasons for the Auditor's Annual Report not being issued by 30 September 2021.

Yours faithfully

Page 23

Paul Hewitson  
Audit Director



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