These slides were prepared with the sole intention of facilitating an oral presentation to members of the Competition Commission Panel. They were not prepared to be viewed on a standalone basis and are not necessarily exhaustive. Items in red indicate that the information shown was confidential and has been removed from this version.
Agenda

• Welcome and opening comments  David Sproul

• The role of audit  Vince Niblett

• Bringing an audit to life  Panos Kakoullis

• Our talent strategy  Heather Hancock

• Summary and closing comments  David Sproul
The role of audit

Vince Niblett
Bringing an audit to life

Panos Kakoullis
Overview of audit process
An audit summarised in 10 stages

1. Appointment
2. Understand the business
3. Plan the audit
4. Conduct the audit
5. Collate audit findings
6. Audit the financial statements
7. Report our findings
8. Seek and receive feedback
9. Quality assurance
10. Decision to re-appoint

Dealing with ad hoc issues and adding value throughout the year
## Appointment

The reasons for appointing or changing auditors

<table>
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<tr>
<th>People</th>
<th>Quality</th>
<th>Skills and expertise</th>
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<tbody>
<tr>
<td>Global Network</td>
<td>Knowledge and insight</td>
<td>Price</td>
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<tr>
<td>Merger or Acquisition</td>
<td>Corporate Governance</td>
<td>Issues with existing auditor</td>
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### Steps in the Appointment Process

1. **Appointment**
2. Understand the business
3. Plan the audit
4. Conduct the audit
5. Report our findings
6. Seek and receive feedback
7. Audit the financial statements
8. Collate audit findings
9. Quality assurance
10. Decision to re-appoint
Appointment
Acceptance of appointment

Acceptance of auditor appointment

Unlimited liability

Independence and conflicts of interest

Responsibility of signing partner
Understand the business
How we look at them

- Legal structure
- Location of finance function(s)
- Industry and sector issues
- Nature of products and services
- Global footprint
- Nature and extent of IT systems
- Press and analyst comments
- Financial and business model
- Use of shared services / outsourcing
Understand the business

business model and associated audit risks

1. Obtain finance
- Debt or equity
- Going concern/ability to meet funding obligations

2. Understand the business

3. Plan the audit

4. Conduct the audit

5. Collate audit findings

6. Audit the financial statements

7. Seek and receive feedback

8. Quality assurance

9. Decision to re-appoint

10. Maintain margin
- Asset valuation

9. Grow
- New products and services
- Revenue recognition

8. Earn revenue
- Revenue recognition

7. Launch services
- Capitalisation of costs

4. Build operations

Understand the business

Need for expertise to understand complex operations
Plan the audit
A risk based audit

- Changes to the business (acquisition, product launches)
- Availability of finance
- Areas of accounting judgement
- External economic environment
- Factors relevant to the industry
- Areas susceptible to fraud
- Areas where internal control is weak
Plan the audit

Getting the resources right

Specialist expertise

- Actuaries (pensions and insurance)
- Taxation (direct and indirect)
- Financial instruments (e.g. bonds, derivatives)
- Valuations
- Controls
- IT
- Technical accounting
- US reporting
- Revenue assurance
- Shared services
The global Deloitte network
Over 180,000 people globally

Europe/Middle East/Africa
- Total: 65,500 (inc. 12,760 in UK/Switzerland)
- Partners: 3,200 (inc. 695 in UK/Switzerland)
- Professional staff: 50,900 (inc. 10,025 in UK/Switzerland)
- Administrative staff: 11,400 (inc. 2,040 in UK/Switzerland)

Americas
- Total: 79,000
- Partners: 4,200
- Professional staff: 58,200
- Administrative staff: 16,600

Asia Pacific
- Total: 37,150
- Partners: 2,250
- Professional staff: 29,750
- Administrative staff: 5,150
Conduct the audit
How we do it in practice

The nature and extent of our audit procedures are undertaken in accordance with applicable auditing standards and are based on the audit plan, typically involving:

**Process walkthrough**

To understand the end-to-end flow of transactions in order to identify risks and controls and to satisfy ourselves that the company has designed an effective system of internal control.

*Follow the process from a customer order being received to the cash being collected and the sale being recorded in the company’s books.*

**Testing controls**

To satisfy ourselves that the controls that the company has in place have been operating effectively throughout the year.

*Seek evidence that the credit notes given to customers have been appropriately authorised.*

**Testing transaction details (substantive testing)**

To evidence the existence of transactions occurring and ensuring that they are recorded accurately.

*Tracing the company’s cash balance to third party bank confirmations.*

**Conclude**

To satisfy ourselves that the balances recorded are correct or to quantify errors identified.

*We may identify sales that have been recorded but actually took place after the year end.*
We assess the reasonableness of key assumptions including:
- Risk free rates
- Beta values
- Nominal GDP growth
- Tax rates
- Foreign exchange rates

We test the mechanical accuracy of management’s valuation model

We review the appropriateness of macroeconomic assumptions using external evidence and involvement from our valuation team specialists

We consider the historical performance against the forecasts and challenge the assumptions inherent in achieving the plans
Conduct the audit
Testing pensions

Consider competence of third party who prepares the financial information

We use in-house specialists to conclude upon the assumptions used in calculating the pension liabilities:
- the discount rate
- the inflation rate
- the return on assets
- the mortality rates

We select a sample of asset valuations and agree them into third party evidence.

We agree a sample of contributions and benefits paid to the underlying books and records.
Conduct the audit
Testing fixed assets

We substantively test both fixed asset additions and disposals

We test construction in progress for validity and recording by selecting a sample of projects and assessing:
• the current status of projects
• the committed future spend
• the current treatment of assets (i.e. in service, depreciated, impaired)

We review other projects considered to be high risk
Collate audit findings
Collate and consolidate

Reporting process

Unit audit team concludes on audit findings

Reporting entity audit partner reviews unit auditor's conclusions

Findings reported to unit's management

Formal sign-off from unit partner to reporting entity partner

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10. Audit findings

Reporting Entity

Reporting Entity Audit Team

Unit A

Audit Team A

Unit B

Audit Team B

Unit C

Audit Team C

Unit A

Audit Team A

Unit B

Audit Team B

Unit C

Audit Team C
Collate audit findings
How this works in practice

In practice, the extent of audit work will vary between units depending on their size and nature.

Additionally, unit auditors will also have to undertake procedures required for local reporting purposes.
Audit the financial statements
Consolidation and reporting process

Unit results

- Typically a pack of financial data audited by a local audit team
- Includes financial and non-financial data
- Forms basis of local statutory reporting

Consolidation process

- The process of aggregating the results of each Unit, which is audited by a central team
- Process includes making adjustments to align to a common basis of accounting

Financial Statements

- Includes lengthy disclosures and management commentary in accordance with relevant laws and regulations
- Nature and extent of disclosure is a key area of judgement and requires expertise
Report our findings
Written reporting throughout the year

**Audit Plan**
- Audit scope
- Locations
- Team
- Audit areas of focus
- Fees

- **Audit Plan**
- **Early Warning**
- **Final Report**
- **Other**

- **2 – 4 months before year end**
- **1 – 3 months before year end**
- **1 – 2 months after year end**
- **Issued as appropriate**

- *Audit scope*
- *Locations*
- *Team*
- *Audit areas of focus*
- *Fees*

- *Summarise progress of work to date*
- *Changes to the audit plan*
- *Issues and conclusions to date*

- *Changes to the audit plan*
- *Conclusions on key judgement areas*
- *Control observations*

- *Half year review findings*
- *Management letter (report on control observations)*
Seek and receive feedback
Typical feedback mechanisms

Feedback sought from

UK Corporate Governance Code
Company-led internal evaluations

Type of feedback requested

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9. Collate audit findings
10. Decision to re-appoint
Quality assurance
Scrutiny of our audit work

Embedded quality

Audit system
Training
Policies and processes
Tools and resources

“Cold” file reviews

Practice review
Audit Inspection Unit (AIU)
Public Company Accounting and Oversight Board (PCAOB)

In-process reviews

Professional Standards Review (PSR)
Independent Review Partner (IRP)

Regulatory review of financial reporting

Financial Reporting Review Panel (FRRP)
Securities and Exchange Commission (SEC)
Decision to re-appoint
Active decision undertaken annually

- Typically based on results of internal assessment
- Requirements of auditor may change
- Shareholders required to approve our re-appointment
- Opportunity for open dialogue with Auditors at Annual General Meeting
Year-round effort
Dealing with ad hoc issues

- Leverages knowledge from audit
- Requires specialist resource (e.g. capital markets)
Year-round effort
Adding value

Investing in our relationships

Thought leadership (e.g. surveys, points of view)

Publishing accounting literature

Examples

1. Appointment
2. Understand the business
3. Plan the audit
4. Conduct the audit
5. Collate audit findings
6. Audit the financial statements
7. Report our findings
8. Seek and receive feedback
9. Quality assurance
10. Decision to re-appoint
Our talent strategy

Heather Hancock
Why people want to join Deloitte
Being distinctive for talent
Recruitment and our networks