



Bòrd na Gàidhlig

Report to the Audit & Risk Management Committee and the Auditor
General for Scotland on the 2017/18 audit

Issued on 3 August for the meeting 14 August 2018

Contents

01 Our final report

Introduction 3

Our audit explained 6

Financial statements audit

Significant risks 8

Other matters 11

Other significant findings 12

Our audit report 14

Your annual report 15

Audit dimensions

Overview 18

Governance statement 19

Financial sustainability 20

Specific risks 22

02 Technical update

New standards for 2018/19 Code 25

03 Appendices

Purpose of our report and responsibility statement 27

Action plan 28

Fraud responsibilities and representations 33

Independence and fees 34

Events and publications 35

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.

I have pleasure in presenting our final report to the Audit & Risk Management Committee of Bòrd na Gàidhlig for the 2017/18 audit. The scope of our audit was set out within our planning report presented to the Committee in February 2018.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. This includes our consideration of the Accountable Officer's duty to secure best value. As set out in our plan, due to the relative size and scale of the functions delivered by Bòrd na Gàidhlig, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:
 - The appropriateness of the disclosures in **the governance statement**; and
 - The **financial sustainability** of the Bòrd and the services that it delivers over the medium to longer term.

Introduction (continued)

The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Achievement of expenditure resource limits; and
 - management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 8.
- We have not identified any audit adjustments from our procedures to date.
- The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Bòrd.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work, we expect to issue an unmodified audit opinion.

Insights

- We have performed analytics on the journal entries posted in the year to profile the journal population which has helped us identify journals of audit interest, such as journals posted on non-business days or journals with key words. No issues were noted from this testing. Comments from review of journals are included on page 12.
- Given the increasing importance of social media, we have included some insights from analysis of the Bòrd's Twitter account on page 13.
- We have raised several insights for areas where improvements could be made to the Bòrd's operations, detailed on pages 27 - 29.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - Finalisation of our internal quality control procedures;
 - receipt of signed management representation letter; and
 - our review of events since 31 March 2018.

Introduction (continued)

The key messages in this report – wider scope

The following sets out the key messages of this paper in relation to the wider scope work:

Financial sustainability

The Bòrd continues to face a challenging financial position. The Bòrd exceeded its cash allocation for the year by £10k (within tolerance limits) and made an overall deficit of £20k due primarily to accounting adjustments for the pension deficit. However, the Bòrd stayed within its £100k limit of cash reserves and did not go into overdraft. The Bòrd's budget for 2018/19 is projecting £24k of savings that need to be achieved to offset the anticipated increase in staff costs in order to remain within the running costs allocation. Given the underspend in the current year in running costs (£49k), there is sufficient headroom for the increased staff costs in 2018/19 even if no further savings are achieved. It is anticipated that £58k of recurring savings will need to be identified by 2020/21 as, in the absence of increased funding for running costs, the ability of the Bòrd to remain within its allocation for any further periods is in doubt.

| | | | |
|--|--|---|---|
| 2017/18 final outturn position reported an overspend against core allocation of £10k (0.2%) . This is within tolerable limits. | A balanced budget for 2018/19 was approved in March 2018. This included £24k of recurring and £8k non-recurring savings that need to be achieved. | The Bòrd has achieved savings of £44k against budget within running costs primarily by managing staff vacancies and reducing the amount of travel taken by Board members. The feasibility of maintaining these savings into the future needs to be considered. | The Bòrd's budget estimates a funding gap of £58k in running costs for the period to 2020/21. Thereafter, the Bòrd accepts that it may not be possible contain spending within the running costs allocation. |
|--|--|---|---|

Governance statement

We have reviewed the annual governance statement for appropriateness of the disclosures in the governance statement or any other issues and best practice. A number of changes were suggested to bring this in line with best practice and these have been implemented by management.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the wider audit dimensions:

- Financial sustainability
- Governance and transparency

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.

Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business

As noted in our planning report, the Bòrd continues to face significant financial challenges, combined with the yet to be confirmed impact of Brexit and other political factors on Gaelic speaking communities.

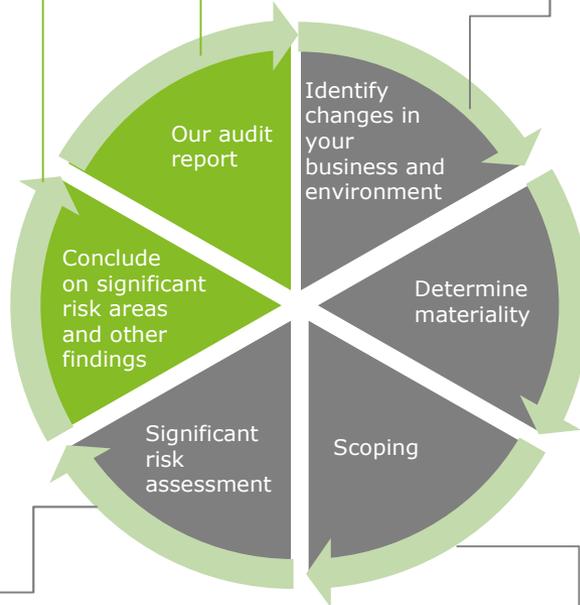
Materiality

The materiality of £106k and performance materiality of £79k has been based on the benchmark of gross income and is a slight increase from what we reported in our planning paper due to updated final figures.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £5.3k.

Scope of the audit

We will audit the financial statements of Bòrd na Gàidhlig for the year ended 31 March 2018.



Timeline 2017/18

November 2017

Meetings with management and other staff to update understanding of the processes and controls.

6 February 2018

Presented planning paper to the Audit & Risk Management Committee

May 2018

Review of draft accounts, testing of significant risk and performance of substantive testing of results.

31 March 2018

Year end

1 June 2018

Audit close meeting

14 August 2018

Audit & Risk Management Committee meeting

12 September 2018

Accounts sign off

Quality and Independence

We confirm we are independent of Bòrd na Gàidhlig. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Financial statements audit



Significant risks Dashboard

| Risk | Material | Fraud risk | Planned approach to controls testing | Controls testing conclusion | Consistency of judgements with Deloitte's expectations | Comments | Slide no. |
|---|---|---|--------------------------------------|-----------------------------|---|--------------|-----------|
| Achievement of expenditure resource limit |  |  | D+I | Satisfactory |  | Satisfactory | 9 |
| Management override of controls |  |  | D+I | Satisfactory |  | Satisfactory | 10 |

There are no other key audit matters which require to be included in our report.

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Risk 1 – Achievement of expenditure resource limits

Risk identified

There is a key financial duty for Bòrd na Gàidhlig to comply with the Departmental Expenditure Limit ('DEL') set by the Scottish Government.

The risk is therefore that Bòrd na Gàidhlig materially misstates expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position. The significant risk is therefore pinpointed to accruals and prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results.



Key judgements and our challenge of them

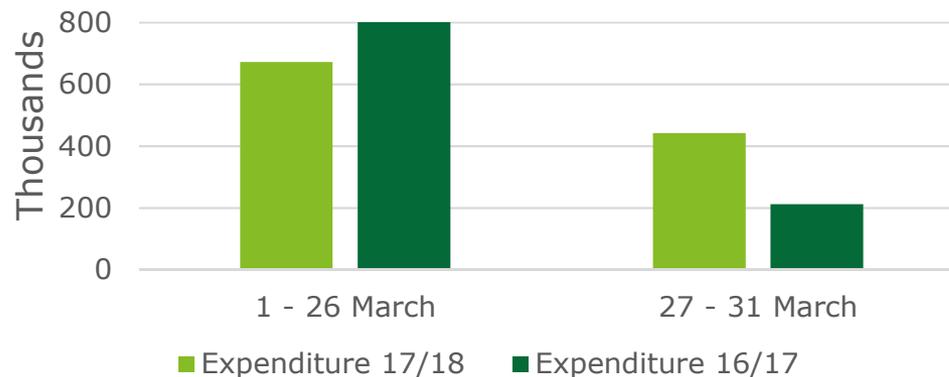
Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.



Deloitte response

We have evaluated the results of our audit testing in the context of the achievement of the target set by the Scottish Government. Our work in this area included the following:

- Obtained independent confirmation of the DEL allocated to Bòrd na Gàidhlig by the Scottish Government;
- Performed focused testing of accruals and prepayments made at the year end; and
- Performed focused cut-off testing of invoices received and paid around the year end.



Deloitte view

We have concluded through the performance of our year end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified.

We confirm that Bòrd na Gàidhlig has performed within the limits set by the Scottish Government and therefore is in compliance with the financial targets in the year.

However, as illustrated above and as noted in the prior year, the level of expenditure in the final week of the year is substantially in excess of expenditure throughout the rest of the month and the year (and has increased since last year, when this issue was first highlighted). We do note, though, that expenditure in the final month has fallen, and expenditure is thus better spread across the year. Processes should be instituted to minimise the amount of spend which is left to be incurred at the year end. This is further discussed on page 30.

Significant risks (continued)

Risk 2 - Management override of controls



Risk identified

In accordance with ISA 240 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 Bòrd's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks around recognition of income. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- We have raised an insight on the control environment in relation to the authorisation of grants.

Deloitte response

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

- The Bòrd's results throughout the year were projecting underspends in running costs. This was closely monitored and whilst projecting underspends, the underlying reasons were well understood and regular discussions were held with Scottish Government in order to use the underspend for Gaelic development projects; 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.

Significant transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

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 performed design and implementation testing of the controls in place for journal approval.

We have used data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

No issues have been noted from the testing performed.

Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements has been completed with no issues noted.

Other matters

Defined benefits pension scheme

Background

The Bòrd participates in the Highland Council pension scheme.

The net pension liability has decreased from £1,479k in 2016/17 to £756k in 2017/18 as a result of an increase in the discount rates applied, a reduction in the salary increase rate and the triennial valuation updating membership figures.



Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts;
- We assessed the reasonableness of the Bòrd's share of the total assets of the scheme with the Pension Fund financial statements;
- We reviewed the disclosures within the accounts against the Code; and
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.

Deloitte view

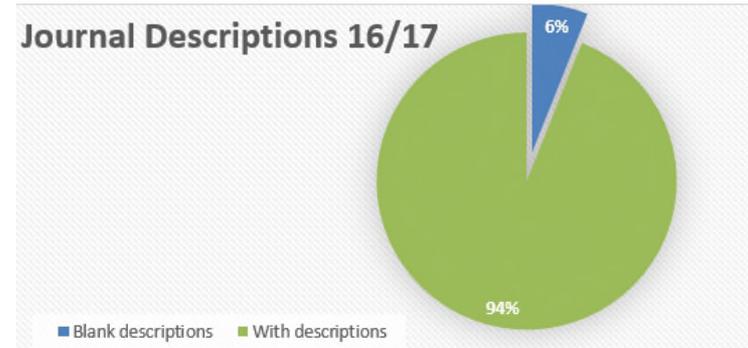
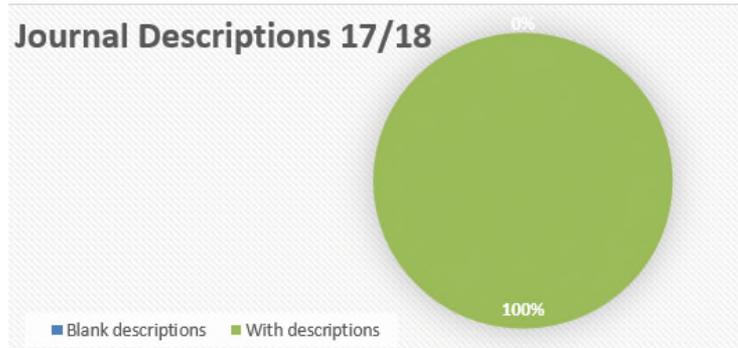
We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and the valuation is carried out by a suitably qualified, independent and regulated actuary. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

Other significant findings

Insights delivered

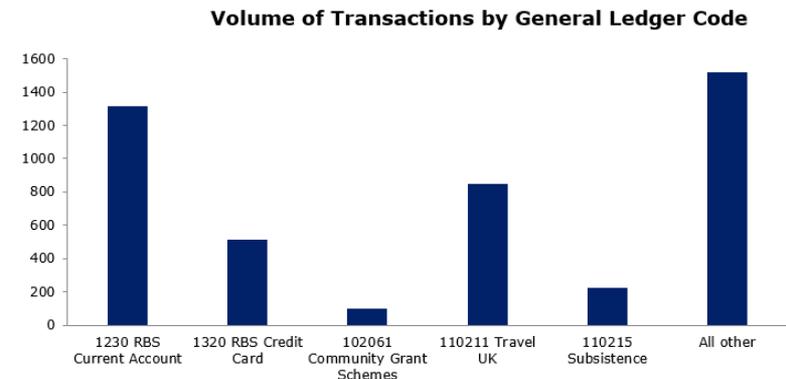
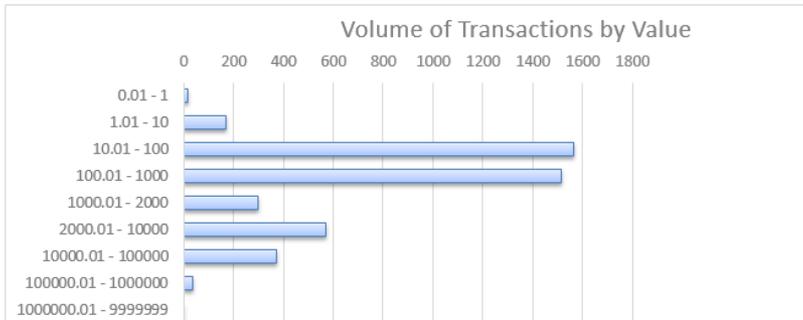
We have performed analytics on all of the journal entries processed during the year. We have highlighted some key themes arising from this work for your consideration.

Following comments raised by Deloitte in the prior year, improvements to the journal posting process were made and it is noted that all journal entries now contain descriptions, an improvement on the prior year when 6% did not, as shown below.



72% of transactions are less than £2,000 - this is the value that the Bòrd themselves consider to be 'high value', as shown below. This is an improvement on the prior year, when 80% were less than £2,000. In addition, only 4% (2016/17: 5%) are less than £10, meaning not much time is spent on extremely low value transactions.

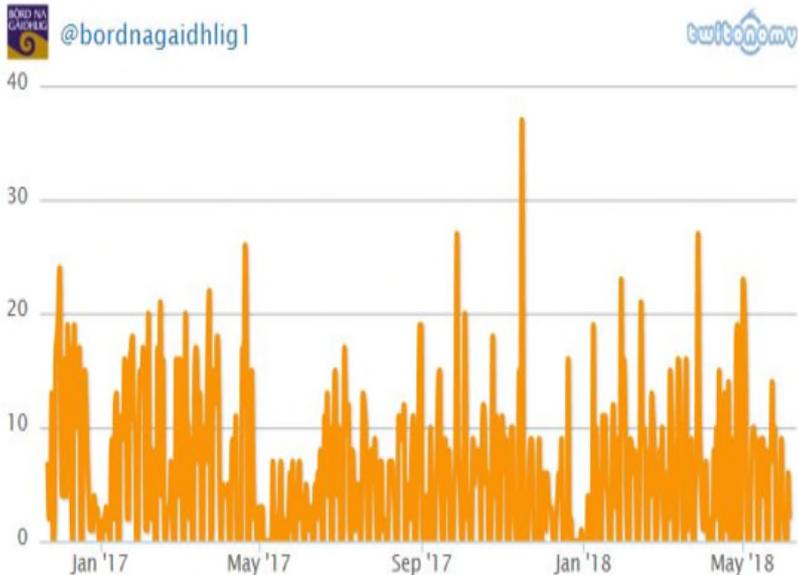
As the Bòrd operates largely on a cash basis, the most commonly used individual accounts relate to current and credit card accounts, as shown below. Employees take on travel as part of their work and it is therefore reasonable to expect that there will be a large number of transactions with regards to travel costs and subsistence claims.



Other significant findings (continued)

Insights delivered

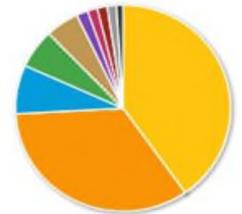
Given the increasing importance of social media, we have reviewed the Bòrd's Twitter account for any areas where improvements can be made.



Activity on social media has remained relatively consistent throughout the year, as shown to the left.

Hashtags most used

| | | | |
|----------------|-----|-------------------|-----|
| #gàidhlig | 375 | #gaelic | 317 |
| #gaidhlig | 71 | #pcng3 | 57 |
| #planagaidhlig | 47 | #cothrom | 16 |
| #gabhancothrom | 14 | #duaiseangaidhlig | 14 |
| #scotedawards | 13 | #alltan | 9 |

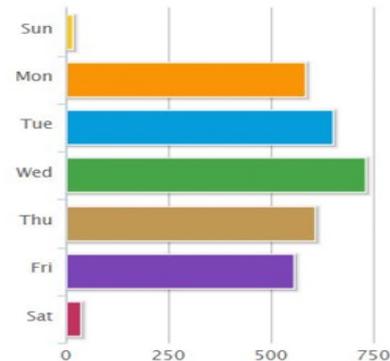


The 'hashtags' most used by the Bòrd are niche and consideration should be given to whether the use of more general hashtags, in addition to the specific ones as shown above, would result in wider reach of the Bòrd's tweets. We also noted that a lot of the Bòrd's tweets have no hashtags used in them at all, which greatly limits their reach.

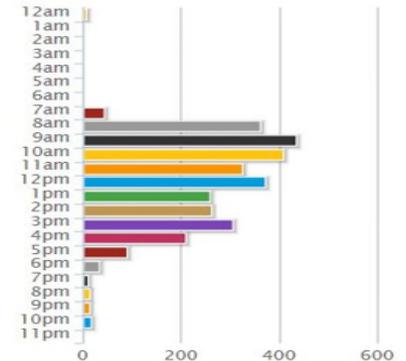
Twitter reports that the time most people checked Twitter is 1 – 3 PM Monday to Thursday, with the lowest amount checking in after 8 PM every day and 3 PM on Fridays. The Bòrd should consider the timing of its posts to better reflect this: currently, 1 – 3 PM is when the Bòrd posts the least, with Friday being when it posts the most in the working week (shown right.)

We noted from review of the Bòrd's Twitter account that it regularly posts images and this practice should be continued: according to Twitter, this increases retweets by 41% and favourites by 48%.

📅 Days of the week



🕒 Hours of the day (UTC)



Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter / other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 15.



Your annual report

We welcome this opportunity to set out for the Audit & Risk Management Committee our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

| | Management response | Deloitte response |
|---------------------------|--|---|
| The Performance Report | The report outlines Bòrd na Gàidhlig's performance, both financial and non-financial. It also sets out the key risks and uncertainty facing the organisation. | <p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have made a number of recommendations for changes to the annual accounts in line with good practice. We have included elements of good practice for your consideration at page 16.</p> |
| The Accountability Report | Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report. | <p>We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have also audited the auditable parts of the remuneration and staff report and confirmed that it has been prepared in accordance with the accounts direction.</p> |
| Going Concern | Management has made appropriate disclosure relating to Going Concern matters. | We have confirmed that the 2018/19 budget was approved by the Board in March 2018 and included draft budgets for 2019/20 to 2020/21. We have concluded that the plan is sufficiently robust to demonstrate that Bòrd na Gàidhlig will be a going concern for 12 months from signing the accounts. |

Your annual report (continued)

Audit Scotland has issued a series of Good Practice notes to highlight where annual reports can be improved. Although not specific to NDPBs, we would encourage the Bòrd to use the findings to assess and enhance their own disclosures to ensure they provide high quality information to stakeholders in their annual accounts.

We have provided below some extracts which should be considered by the Bòrd in drafting future annual reports.

Performance report

The following areas for improvement were identified when reviewing the Bòrd's annual report:

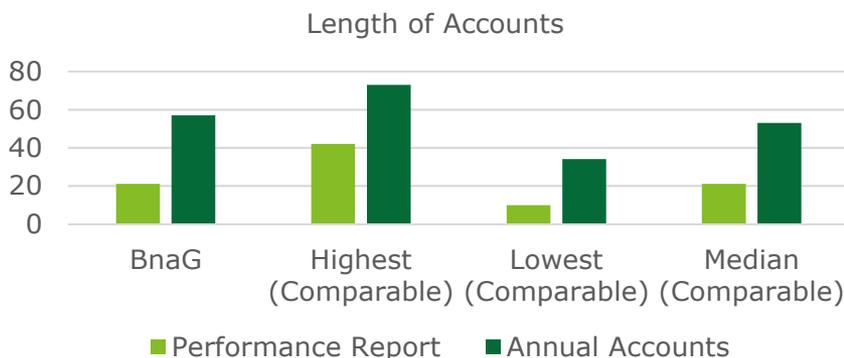
- Reduce the length of the performance overview and achieve a greater balance between overview and analysis, through use of graphics/pictures, signposting to web pages and by placing non-summary information in the analysis section rather than the overview.
- The performance report in total could be reduced: the average is 5-15 pages, whereas the Bòrd has 26. Review in total and remove irrelevant information, use graphics/pictures/tables to reduce unnecessary narrative.
- Consider if the use of case studies would be beneficial to the users of the accounts in aiding understanding of the Bòrd's work.
- Consider if including a glossary of terms at the end of the accounts would be beneficial to the users of the accounts where sector-specific or accounting terminology is used.

Governance statement

The following areas for improvement were identified when reviewing the Bòrd's annual report:

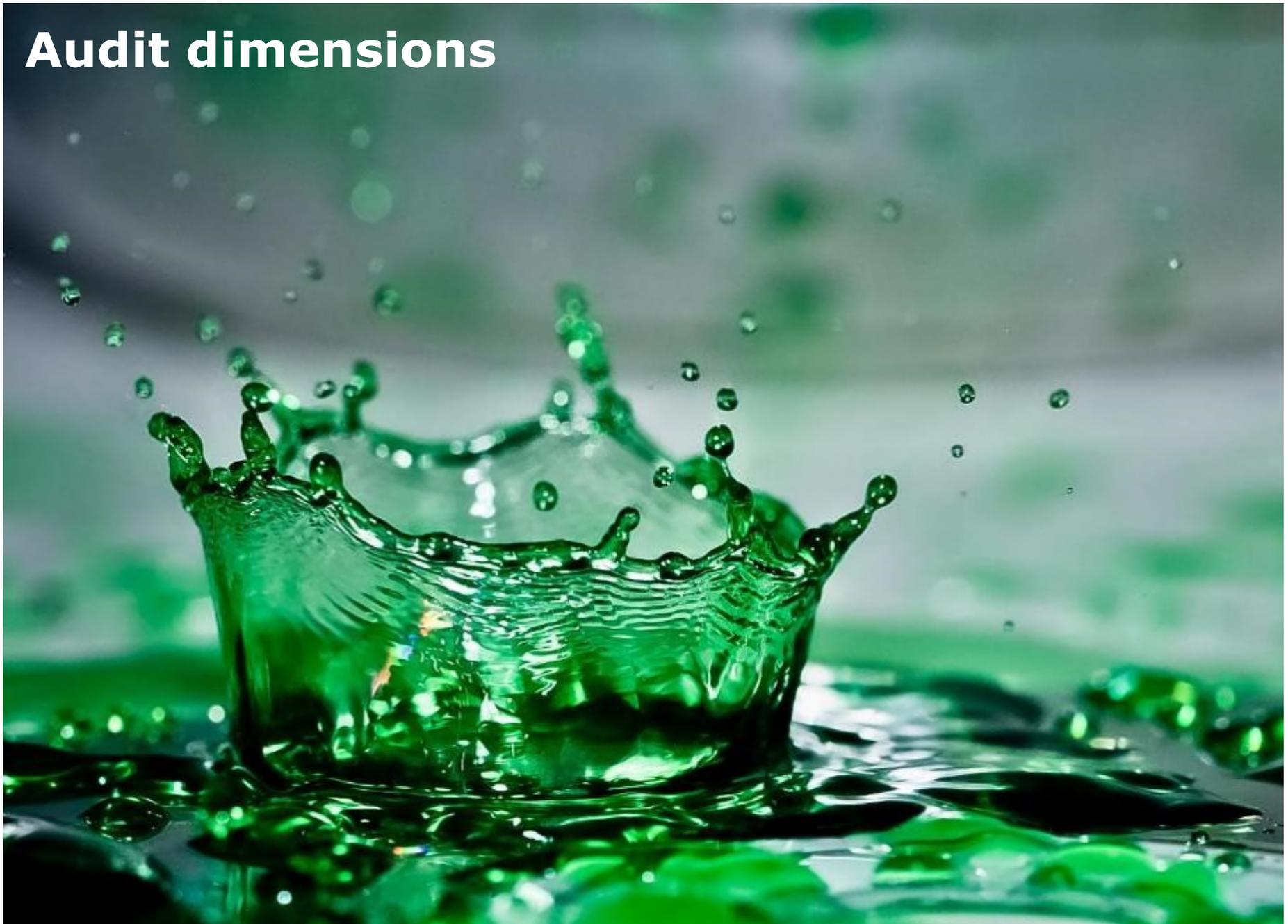
- The Bòrd should include an 'action plan' for any significant governance issues raised by internal or external audit, or by management within the organisation;
- The annual governance statement should follow up on any issues from previous years and provide an assessment of actions previously taken and how future actions will result in a different outcome;
- Critical judgements should be further explained in the commentary (rather than just disclosed in the notes).

A list of comments for improvement, including the above, have been provided to management at the Bòrd with a strong recommendation that these be implemented for the 2018/19 annual accounts. Deloitte accepted that the timescale for applying all the improvements in the current year was not achievable due to organisational changes at the Bòrd but we are satisfied that the accounts are FReM compliant and all required changes have been made.



We have reviewed the annual accounts of the Bòrd against comparable clients in terms of size and remit within our public sector portfolio. This shows that the Bòrd aligns with the median – with the performance report the same length as the median, and the accounts as a whole 4 pages longer than the median. We would note that this is longer than Audit Scotland notes as being the average across public bodies complying with the FReM requirements (above). Given this, the Bòrd should review its annual accounts during preparation to ensure any 'boilerplate' information or information which is not important to users is excluded. Although the annual accounts must cover a wide breadth of information, it is important that they are concise.

Audit dimensions



Wider scope audit work

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. As set out in our plan, due to the relative size and scale of the functions delivered by Bòrd na Gàidhlig, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the **governance statement**; and
- The **financial sustainability** of the Bòrd and the services that it delivers over the medium to longer term.

Our report is structured in accordance with these two specific areas, but also covers our specific audit requirements on best value and specific risks as summarised below.

Best Value (BV)

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Government have a specific responsibility to ensure that arrangements have been made to secure best value.

We have considered the accountable officers' duty to secure BV as part of the governance arrangements considered as part of the wider scope audit work.

Specific risks (SR)

As set out in our Annual Audit Plan, Audit Scotland had identified a number of significant risks (SRs) faced by the public sector which we have considered as part of our work on the wider audit dimensions.

SR 1 – EU Withdrawal

SR 2 – New Financial Powers

SR 3 – Ending public sector pay cap

SR 4 – Cyber security risk

SR 5 – Openness and transparency

Wider scope audit work (continued)

Governance statement

Audit dimension

As part of the annual audit of the financial statements, we have consider the appropriateness of the disclosures in the governance statement.

Areas considered



- The completeness of the disclosures in meeting the requirements of the essential features, as specified in the Scottish Public Finance Manual.
- Inconsistencies between the disclosures or between the disclosures and audit knowledge.

Deloitte view

The governance statement meets the requirements of the Scottish Public Finance Manual and no inconsistencies have been noted.

Deloitte response



Based on our audit work and the work of internal audit, we have not identified for reporting any changes in governance arrangements or any issues of concern in the governance statement.

Wider scope audit work (continued)

Financial sustainability

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Areas considered



- The financial planning systems in place across the shorter and longer terms.
- The arrangements to address any identified funding gaps.
- The affordability and effectiveness of funding and investment decisions made.
- Workforce planning.

Deloitte response



From our work in 2016/17 we made various recommendations to the Board around review of strategic risk management processes and consideration of longer term financial planning. This year we have assessed progress in relation to these recommendations and identified other areas for improvement going forward.

Deloitte view

The Bòrd continues to face an extremely challenging financial position, however, the Bòrd met its financial targets in 2017/18. The budget for 2018/19 is projecting £32k of savings that need to be achieved within running costs and has identified a need to increase this to £58k (4%) of recurring savings over the period to 2020/21. Achieving sufficient savings in the medium term, given rising costs and a standstill budget, is likely to prove increasingly difficult.

Having reviewed actual performance in 2017/18 against budgeted performance, Deloitte are of the view that there is scope to reduce budgeted spend in certain categories and to increase spend in others. It would also be preferable if the budget was based on actual spend in the most recent year, amended for expected efficiencies. Using the prior year budgeted figures is not ideal given that there has been substantial deviation from the budgeted spend for 2017/18 in the year.

Further, sensitivity analysis on the running costs should be carried out given the tight nature of the budget and the potential impact of additional costs (e.g., outsourcing financial support; increased IT costs due to new regulation & cyber risks) and the impact this, along with the removal of the public sector pay cap, has on Bòrd na Gàidhlig's ability to stay within its running cost budget.

Wider scope audit work (continued)

Financial sustainability (continued)

Short term financial position

For **2017/18**, the Board approved a balanced budget of £5,294k (2016/17: £5,294k). The final position for 2017/18 was an overspend of £10k.

The **2018/19** budget was approved by the Board in March 2018. This budgeted total expenditure of £5,294k, which incorporates £32k of savings within running costs.

In setting its budget, the Bòrd has recognised that a number of risks exist, such as inflation, pay rises and the standstill nature of the running costs allocation. The Bòrd has identified savings required within running costs in order to meet anticipated pay rises whilst still remaining within the budgeted running costs. However, these savings must be recurring in nature and increase year on year for the foreseeable future in the absence of an increase in funding.

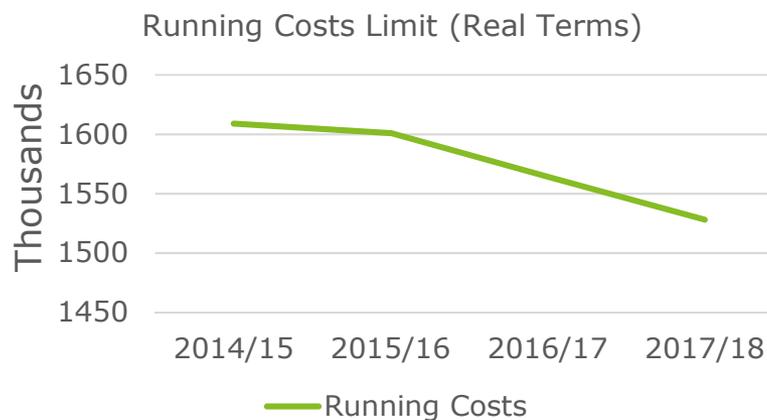
Deloitte view

Consideration of the feasibility of the £1,609k running costs going forward from 2020/21 should be given more weight, rather than assuming that it will simply remain at that level, especially given the difficulties with achieving this highlighted in the three year budget.

The budgeted spend on each of the priority areas in the National Gaelic Language Plan is static each year: consideration should be given to the accuracy of this, and whether there will need to be additional spending in earlier years on certain priorities (e.g. promoting Gaelic) which decreases in later years with more funding then being spent on learning/using Gaelic following successful promotion in the earlier years.

Medium to long term financial sustainability

The Bòrd has managed its budget appropriately over the past several years, managing to remain within the running costs allocation despite a 5% real terms reduction in the spending limit. However, due to increasing costs and the continuing restraint in relation to funding, the Bòrd will have to consider how it can fundamentally transform operations in order to continue to meet Gaelic community needs with reducing budgets.



The Bòrd recognises that if it continues with current processes, there will be a funding gap after 2020/21, although this has only been noted at a high level and further work needs to be done to quantify any funding gap and identify further savings or organisational changes required to maintain financial sustainability without significantly impacting on the work of the Bòrd.

Wider scope audit work (continued)

Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

| Risk identified | Response |
|--|--|
| <p>EU Withdrawal</p> | <p>The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:</p> <p>Workforce: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p>Funding: the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p>Regulation: the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation.</p> <p>The Bòrd has noted that this is unlikely to have a significant impact on its operations but should keep a watching brief as the details are developed. The impact is most likely to be felt by the communities which the Bòrd primarily deals with (through exacerbating population decline in Gaidhlig speaking areas, reduction in EU funding for stakeholder projects and partnerships, loss of confidence and motivation among stakeholders.)</p> |
| <p>New financial powers</p> | <p>The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public finances. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. The Bòrd should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.</p> |
| <p>Ending public sector pay cap</p> | <p>The Bòrd is and will remain aligned with the Scottish Government on pay awards for employees and has budgeted an average 2% increase in staff costs to account for this, which is achievable within the running cost limits. Deloitte are satisfied that this is appropriate given the current information available.</p> |

Wider scope audit work (continued)

Specific risks (specific risks)

| Risk identified | Response |
|---|--|
| <p>Cyber security risk</p> | <p>Cyber security is considered as part of the overall risk management process and assigned a risk level within that. The Bòrd has discussed the overall approach to risk, including cyber risk, as part of the risk management review conducted in 2017/18.</p> <p>The Bòrd is currently progressing with cyber resilience certification in line with Scottish Government requirements and deadlines.</p> <p>The Bòrd began the development of a new ICT strategy in 2017/18, which includes cyber risk and compliance with Scottish Government requirements. This remains in draft form and is due to be completed in 2018/19.</p> <p>In addition to this, there has been a large increase in spending in the current year on IT software and hardware to address cyber risks (installation of new software, firewalls, updating machinery).</p> |
| <p>Openness and transparency</p> | <p>From our audit work, we are satisfied that the Bòrd is appropriately open and transparent in its operations and decision making.</p> <p>There have been a number of discussions at the Board level about the nature of Board meetings, considering the necessary nature of openness and transparency. The Board decided that it was not appropriate to hold public Board meetings, but to hold community meetings aligned with Board meetings so as to facilitate community involvement.</p> |

Technical update



Technical Update

New accounting standards for 2018/19 and 2019/20

IFRS 9, Financial instruments and **IFRS 15, Revenue from contracts with customers**, have been adopted for the 2018/19 Government Financial reporting manual (FReM). These new standards are not expected to have a significant impact on Bòrd na Gàidhlig.

The effective date of **IFRS 16 Leases is 1 January 2019**, therefore will apply to Bòrd na Gàidhlig from 2019/20, subject to both EU and HM Treasury adoption.

IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 *Leases* for lessees.

It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the lessee's obligation to make lease payments for the asset.

Potential impact on the Bòrd

Following review of the agreement with Scottish National Heritage for use of Great Glen House, Deloitte have confirmed with management that this will qualify as a lease and would result in a significant amount being carried as an asset/liability in the financial statements and a degree of complexity in determining the amounts to be recognised.

The Bòrd should consider the feasibility of such an exercise or the potential benefit of renegotiating the agreement with Scottish National Heritage so as to render the lease a year-to-year agreement rather than two years, thus allowing the Bòrd to continue the current practice of expensing rent as it is incurred.

Appendices



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 & Risk Management Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) 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 Annual Report.
- Our internal control observations
- Other insights we have identified from our audit

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 Board.

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 the other procedures performed in fulfilling our audit plan.

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

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 and the supplementary "Briefing on audit matters" circulated separately.

This report has been prepared for the Audit & Risk Management Committee and Board, 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.



for and on behalf of Deloitte LLP
Glasgow

3 August 2018

Action plan

Recommendations for improvement

| Area | Recommendation | Management Response | Responsible person | Target Date | Priority |
|---------------|--|---|--------------------|---------------------------------|----------|
| Risk Register | Deloitte has reviewed the Risk Register and discussed with Ailig Graham (Head of Internal Audit). Deloitte note that the Bòrd routinely classify risks as 'high' due to perceived overestimation of likelihood for political or management reasons rather than for actual reasons of risk. The Risk Register loses some of its value by classifying a large number of risks as high risk. Additionally, identifying a larger number of 'high' risk areas will lead to already limited resources being diverted away from areas which are legitimately high risk to deal with areas that have a much lower likelihood (in fact) than which they are stated to have. The Senior Management Team and Audit & Risk Management Committee should consider each of the risks and the actual likelihood of these risks materialising at each point in time, rather than leaving a constant 'likelihood' score without amending for new evidence/matters arising. | Shona MacLennan (Ceannard) agreed that there is the potential that some risks have been overstated in terms of likelihood. Agreed that this risks resources being diverted away from areas that really need them. Shona confirmed that a new risk management process is in the final stages of development. | Ceannard | 30 th September 2018 | High |
| Fraud Policy | There is no anti-fraud policy at Bòrd na Gàidhlig. We strongly recommend that the Bòrd consider implementing an anti-fraud policy, outlining the roles & responsibilities of all staff, processes for identifying and responding to any fraud (alleged, suspected or actual) and other related issues. Without this, there is the potential that incorrect or inappropriate actions may be taken by staff, leading to the perpetration of fraud either by or against the Bòrd. | Shona MacLennan (Ceannard) acknowledged this and has agreed that an anti-fraud policy should be developed, in addition to the anti-bribery and anti-corruption policies already in place. | Ceannard | 31 st March 2019 | Medium |

Action plan

Recommendations for improvement

| Area | Recommendation | Management Response | Responsible person | Target Date | Priority |
|----------------|--|--|--------------------|---------------------------------|----------|
| Budget Setting | The budget is currently based on the previous year's budget, with savings/increases explained against that budget. Given the variances that inevitably arise between the budget and actual spend, budgets - and planned increases/savings - should be based on the most up to date information, being the actual spend. Budgets should be based on the latest available actual figures, rather than prior budgets. Further, sensitivity analysis and scenario planning should be carried out to ensure the robustness of the budget given the tight financial constraints in place. | Shona MacLennan (Ceannard) has acknowledged that improvements could be made to the budget setting process and agreed to implement these recommendations going forward. | Ceannard | 31 st January 2019 | Medium |
| Fraud | The biggest risk highlighted by internal audit with regards to fraud is that of third parties attempting to commit fraud against the Bòrd. This was highlighted by an attempted fraud against the Bòrd by a cyber attack which attempted to gain access to the Bòrd's bank account in March 2017 (although it has been confirmed no loss was suffered). There is the potential for monies to be fraudulently taken from the Bòrd through misuse of banking or supplier/grant organisation details. The Bòrd should require that all changes in payment details for suppliers/grant organisations are accompanied by a written confirmation of the new banking details from the main contact at the supplier/grant organisation. Until this confirmation is received, the Bòrd should refrain from making payments to the new bank. | Shona MacLennan (Ceannard) agreed that this is an issue which is topical and a process which should be implemented. | Ceannard | 30 th September 2018 | Medium |

Action plan

Recommendations for improvement

| Area | Recommendation | Management Response | Responsible person | Target Date | Priority |
|--------|---|---|--------------------|---------------------------------|----------|
| Grants | Although there is a requirement for all grants made under GLAIF or Colmcille to be processed through the standard Purchase Order route used for all other expenditure, there is no such requirement for grants made outwith these. As a result, some smaller community grants have corresponding purchase orders, others do not. There is a lack of consistency in the control applied to the payment of grants, which increases the risk of control failure. A consistent control approach should be developed for grants. | Shona MacLennan (Ceannard) and Ailig Graham (Head of Internal Audit) agreed that a consistent policy should be instituted. | Finance Officer | 30 th September 2018 | Low |
| Leases | With IFRS 16 due to come into force in 2019/20, management should now consider the steps necessary for compliance given the complexities involved. The Bòrd should consider the potential benefit of renegotiating the agreement with Scottish National Heritage so as to render the lease a year-to-year agreement rather than two years, thus allowing the Bòrd to continue the current practice of expensing rent as it is incurred. | Shona MacLennan (Ceannard) has confirmed that compliance with IFRS 16 will be considered in 2018/19 and consideration given to the possibility of renegotiating the agreement with SNH. | Ceannard | 31 st March 2019 | Low |

Action plan

Follow up of 2016/17 recommendations

| Area | Recommendation | Management Response | Responsible person | Target Date | Priority | 2017/18 Update |
|----------------------|--|--|----------------------------|-------------|----------|---|
| Expenditure Spread | We recommend that efforts are made to plan and incur expenditure more carefully throughout the year, matching monthly expenditure more closely to short-term budgets. | This was addressed to a significant degree in the current year and will continue to improve going forward. | Finance Officer / Ceannard | Ongoing | Medium | Progress was made during the year, although expenditure in the final week of the year (£440k) increased on last year. Although some of these payments are necessary, the majority could be brought forward so as to minimise the additional work required at the year end. We would again recommend that the Bòrd consider further processes that can be put in place to monitor and spread expenditure better throughout the year. |
| Risk register detail | The current risk register details a risk score based on impact and likelihood. An enhancement of the current process would be for this to have a residual risk score after applying the current controls, along with a target risk (risk appetite) for each. | The risk register format is currently being reviewed as part of the review of the risk management process. | Head of Corporate Services | March 2018 | Medium | Although this has not yet been implemented, progress has been made and the risk management process is in the final stages of development. Deloitte have been consulted during the year in order to offer insight into the development of the new risk management process. |

Action plan

Follow up of 2016/17 recommendations

| Area | Recommendation | Management Response | Responsible person | Target Date | Priority | 2017/18 Update |
|------------------------------|---|--|--------------------|-------------|----------|--|
| Annual Report | We recommend that the full annual report, including the Chairman's report and the CEO's report, is available in draft at the time of our audit visit, with someone within the organisation taking overall responsibility for ensuring all requirements of the FReM are met. | Management agreed to implement this for the current year. | Finance Officer | May 2018 | Medium | Deloitte are pleased to note that the draft report was available at the beginning of our audit visit in the current year. |
| Journal posting descriptions | No issues of fraud or otherwise were found in relation to journals, but we recommended that all journals should be given descriptions and any which do not have descriptions should be rejected by the reviewer before posting. | This has been acknowledged and management confirmed that going forward, all journals will have full descriptions prior to review and approval. | Finance Officer | Ongoing | Medium | Deloitte are happy to note that this has been appropriately implemented and that in the current year, no journals were noted without appropriate descriptions. |

Fraud responsibilities and representations

Responsibilities explained



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 Board 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 entity or group.

We have also asked the Board 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:

In our planning we identified the risk of fraud in complying with recognition of grant income and management override of controls as a key audit risk for your organisation.

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

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

We have reviewed the paper prepared by management for the Audit & Risk Management Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.



Independence and fees

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

| | |
|----------------------------------|---|
| Independence confirmation | We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised. |
| Fees | <p>The audit fee for 2017/18 is £12,637 as detailed in our Audit Plan.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p> |
| Non-audit services | In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company'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 | <p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p> |



Events and publications

Our publications and insights to support the Board

Publications

The State of the State 2017-18

Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html>



Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

Article: Keeping pace?

Government's technology transformation

Snapshot research with 815 civil servants has identified their views on the role and adoption of technologies, skills and training, as well as confidence levels in dealing with cyber-attacks. Whilst the results tell us that there is an appreciation of the impact and risks of technology developments, and progress is underway, the public sector appears to be struggling to keep pace.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/governments-technology-transformation.html>

Article: Public sector transformation

Five lessons from the private sector

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html>



Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London, EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.