

**Scottish Human Rights Commission**

Report to the Scottish Human Rights Commission and  
the Auditor General for Scotland on the 2018/19 audit

Issued 5 November 2019 for the Audit Advisory Board meeting on 29 November 2019

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# Introduction

## The key messages in this report

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

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

I have pleasure in presenting our final report to the Scottish Human Rights Commission (the Commission) for the 2018/19 audit. The scope of our audit was set out within our planning report issued in March 2019.

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 Officers' duty to secure best value. As set out in our plan, due to the relative size and scale of the functions delivered by the Commission, 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 Commission and the services that it delivers over the medium to longer term.

# Introduction (continued)

## The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

### **Conclusions from our testing**

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

Our review of the performance report and accountability report identified a significant number of areas where the financial statements needed revising in order to comply with the statutory guidance and proper practice. This included disclosures which were missing entirely from the above reports. While we are pleased to note that management have incorporated the recommended changes in the final draft, improvements need to be implemented in 2019/20 with an appropriate quality control review including a review of the statutory guidance taking place before draft accounts are passed to audit.

The auditable parts of the remuneration and staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8. The Commission met its financial targets for 2018/19, drawing down £979,000 from the Scottish Parliamentary Corporate Body (SPCB) against a budget of £1,044,000.

No misstatements in excess of our reporting threshold of £1,000 however disclosure deficiencies have been identified: see page 24 and 25 for further details.

### **Status of the financial statements audit**

Outstanding matters to conclude the audit include:

- Receipt of signed management representation letter; and
- Our review of events since 31 March 2019.

### **Conclusions on audit dimensions**

As set out on page 3, our audit work was restricted to concluding on the appropriateness of the disclosures in the governance statement and the financial sustainability of the Commission.

We have, however, considered the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers and increased focus on openness and transparency.

Our overall conclusion on the audit dimensions is summarised on page 5.

# Introduction (continued)

## The key messages in this report (continued)

### Conclusions on audit dimensions (continued)

#### *Governance statement*

The disclosures are appropriate and address the minimum requirements of the Scottish Public Finance Manual (SPFM).

During the audit it was identified that there are a number of policies which have not been updated in line with the Commission's policy on a regular basis, therefore we have included a recommendation for these on page 26.

#### *Financial sustainability*

The Commission performed within the limits set by the SPCB and therefore achieved short term financial balance in 2018/19. A balanced budget has been set for 2019/20 and robust financial reporting procedures are in place.

In common with other similar bodies, the Commission only receives funding confirmation from the SPCB for one year. However, in the budget bid for the 2020/21 financial year, the Commission has submitted a three year financial projection and a business case for significantly increased funding as a result of increased activity. Whilst this shows that the organisation is planning for the medium term the Commission should endeavour to create a financial strategy which sets out the methods of achieving the strategic priorities. It is important that the Commission review the potential implications of the Scottish Government's Medium Term Financial Strategy in setting its future medium to longer term plans.

#### *Specific risks*

The Commission is closely monitoring developments in relation to EU withdrawal, engaging with the SPCB, taking account of advice and guidance from the Scottish Government and engaging with stakeholder groups. We are therefore satisfied that the Commission is sufficiently prepared.

The Commission is appropriately open and transparent in its operations and decision-making and applies a number of areas of good practice.

Our detailed findings and conclusions are included on pages 16 to 21 of this report.

#### **Next steps**

An agreed Action Plan is included at page 26 of this report, including a follow-up on progress with actions from previous years. We will consider progress with the agreed action as part of our 2019/20 audit.

#### **Added value**

Our aim is to add value to the Commission by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Commission promote improved standards of governance, better management and decision-making, and more effective use of resources.

This is provided throughout the report. We have also shared our informed perspectives from our work across the wider public sector on page 30 of this report.

**Pat Kenny**  
**Audit Director**

# Our audit explained

## Area dimensions

In accordance with the 2016 Code of Audit Practice, we have restricted our wider scope audit work to reviewing:

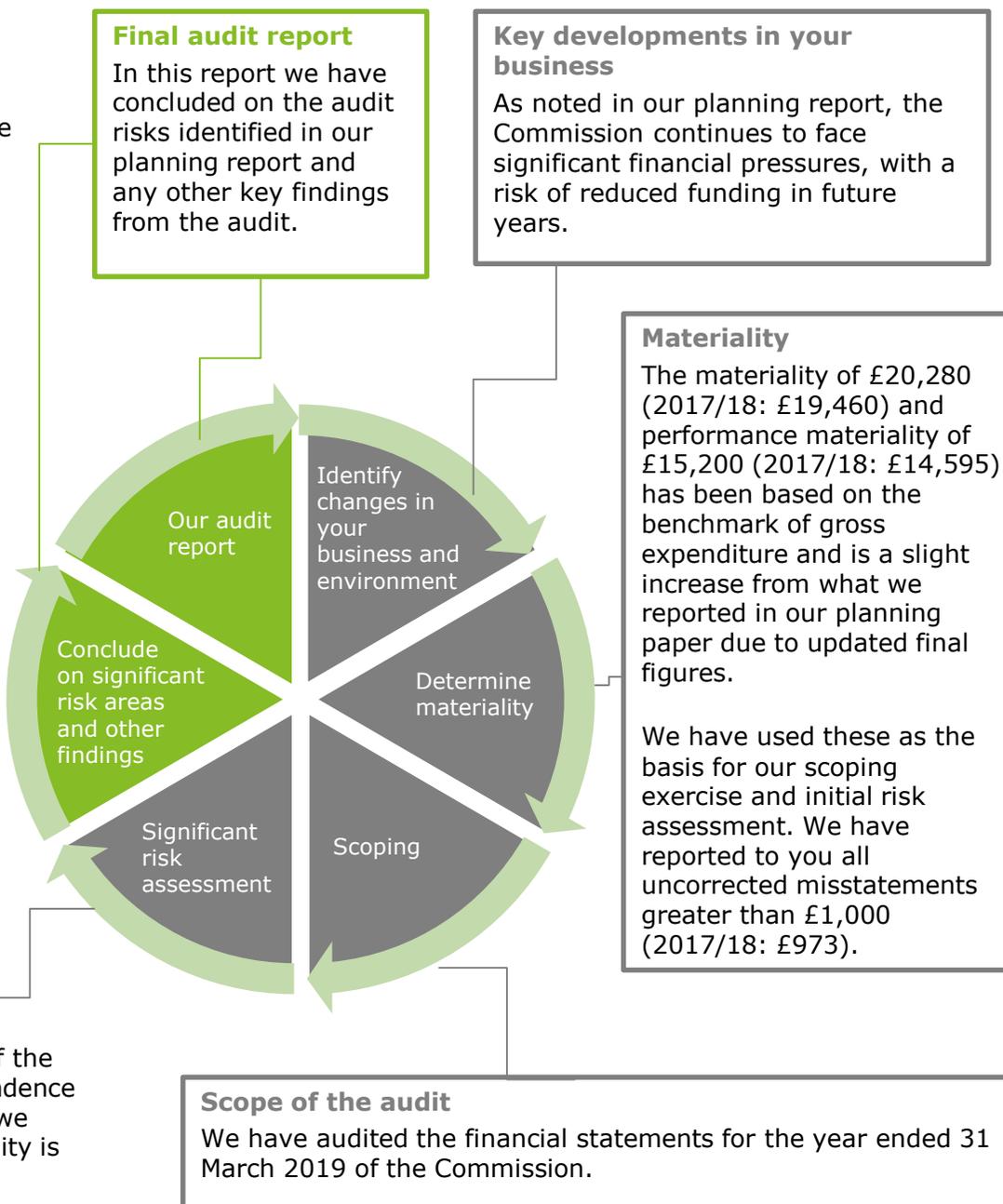
- The governance statement; and
- Financial sustainability.

## 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.

## Quality and Independence

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



## Timeline 2018/19

### January 2019

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

### 28 March 2019

Issued planning paper to the AAB.

### September 2019

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

### 31 March 2019

Year end.

### 29 November 2019

AAB meeting.

### December 2019 (Date TBC)

Accounts sign-off.

# 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	Page no.
Operating within the expenditure resource limit			D+I	Satisfactory		Satisfactory	9
Management override of controls			D+I	Satisfactory		Satisfactory	10

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 – Operating within the expenditure resource limits

### Risk identified

The key financial duty for the Commission is to comply with the annual funding budget allocated by the SPCB to cover cash expenditure and non-cash costs such as depreciation and amortisation. Given the pressures across the whole of the public sector, there is an inherent risk associated with the accuracy and completeness of recording expenditure as there is an incentive for management to either over or under accrue expenditure at the year-end depending on the forecast position, in order to meet the allocation.



### 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 and the invoices processed around year-end.



### Deloitte response

We have evaluated the results of our audit testing in the context of operating within the target set by the SPCB. Our work in this area included the following:

- evaluating the design and implementation of controls around monitoring of financial performance and journal entry postings;
- obtaining independent confirmation of the resource limits allocated to the Commission by the SPCB;
- comparing in-year budget monitoring to final year-end position to identify any specific areas where the final results are out of line with expectations;
- performing focused testing of accruals and prepayments made at the year-end; and
- performing 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.

We confirm that the Commission has performed within the limits set by the SPCB and therefore is in compliance with the financial target in the year.

# Significant risks (continued)

## Risk 2 - Management override of controls

### Risk identified

In accordance with ISA 240 (UK) 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 controls for specific transactions.



### Key judgements

The key judgements in the financial statements include those which we have selected to be significant audit risks around operating within expenditure resource limits. This is inherently an area in which management has the potential to use their judgement to influence the financial statements.



### Deloitte response

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

- The Commission's results throughout the year were projecting slight overspends. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; 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 and unusual 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 performed design and implementation testing of the controls in place for journal approval. See page 26 for recommendations made.

We have used data analytics to risk assess journals and select items for detailed follow-up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

### Accounting estimates

We reviewed the financial statements for accounting estimates which could include biases that could result in material misstatements due to fraud.

We considered any adjustments required for the transition to the new standards (IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instruments), focusing on the areas of greatest judgement and value.

No issues have been identified from our testing.

### Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

We agree with management's position that the new accounting standards do not have a material impact for the Commission.

# Other significant findings

## Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
<p><b>Internal control:</b> Journal documentation</p>	<p>During the audit it was identified that the journal documentation in place is not in line with best practice. Best practice in regards to journal documentation would be a journal authorisation sheet detailing:</p> <ul style="list-style-type: none"> <li>• Journal ID number;</li> <li>• Preparer signature and date;</li> <li>• Authoriser signature and date;</li> <li>• Journal description; and</li> <li>• Supporting documentation attached to the journal authorisation sheet.</li> </ul>	●
<p><b>Internal control:</b> Policy Review</p>	<p>During the audit it was identified that a number of policies have not been reviewed for a considerable length of time or have not been marked as updated when reviewed. This means that the Commission has no evidence that the policy has been reviewed.</p> <p>We recommend that the Commission reviews policies on a rolling basis and appoints a policy owner for each policy who should lead the review of the policy. Where policies have been reviewed but not updated the review date on the policy should be updated.</p>	●
<p><b>Internal Control:</b> Petty Cash Controls</p>	<p>During the audit it was identified that the journal for petty cash transactions for the year was not processed until preparation of the financial statements. This means that the transactions going through petty cash remain unrecorded for a significant period.</p> <p>We recommend that the Commission put in place a formal procedure for posting of petty cash transactions on a more timely basis i.e. monthly and that checks are incorporated to ensure compliance with policies in place.</p>	●

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

# Other significant findings (continued)

## Internal control and risk management (continued)

Area	Observation	Priority
<b>Internal Control:</b> Disposals Documentation	<p>During the audit it was identified that there is no documentation retained regarding assets to be disposed of or evidence of disposal. This means that there is no documentation to support that the Commission no longer owns an asset.</p> <p>We recommend that documentation in relation to communication of items of Property Plant and Equipment to be disposed of and evidence of actual disposal be retained.</p>	

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

# 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.



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

Based on our audit work completed to date, we anticipate issuing an unmodified opinion on the financial statements.



### **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 and 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 performed 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.

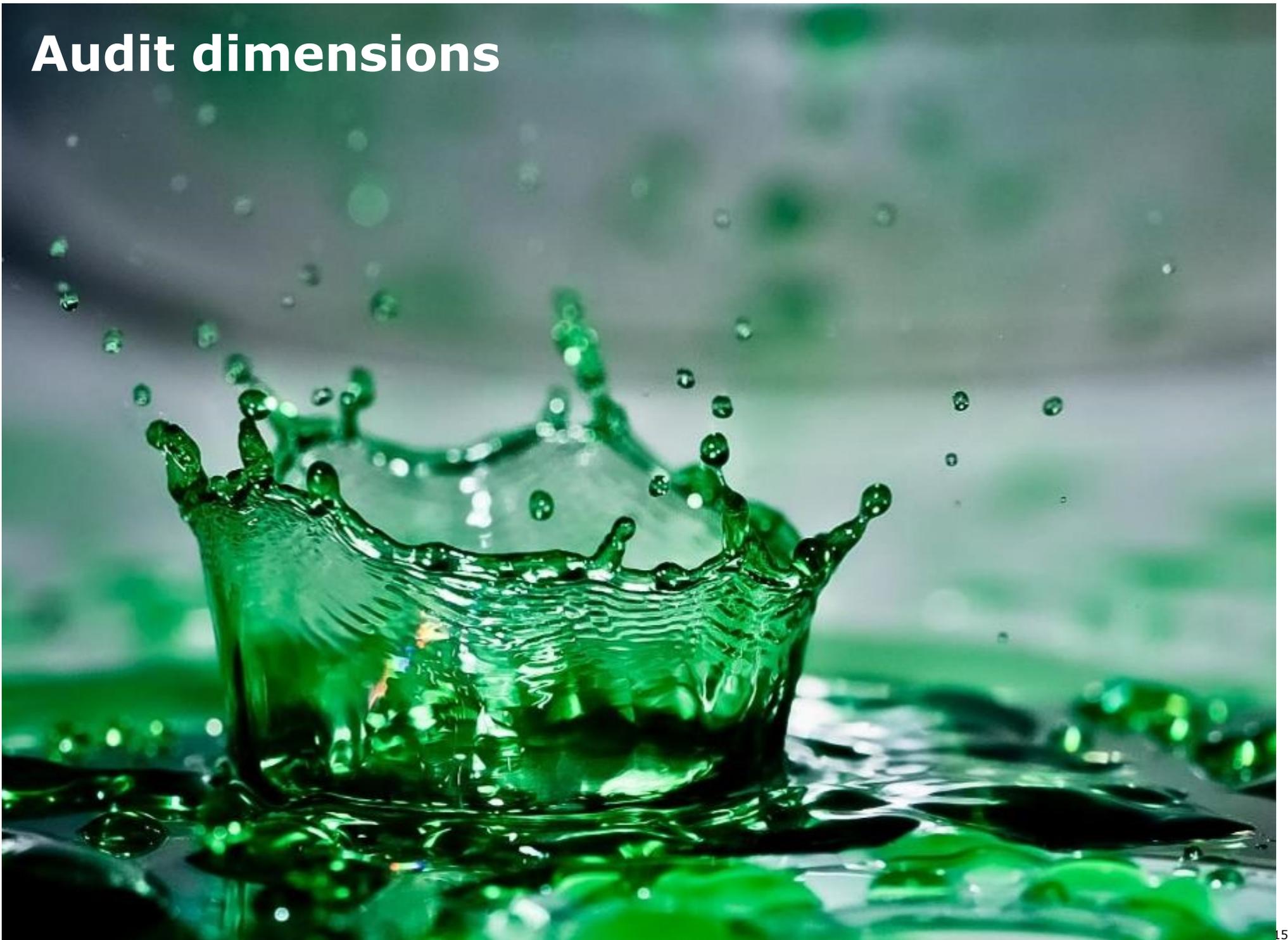
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 14.

# Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the Commission's performance, both financial and non-financial. It also sets out the key risks and uncertainty as set out in the Local Delivery Plan (LDP).	<p>We have assessed whether the Performance Report has been prepared in accordance with the accounts direction. Our review identified a significant number of areas where the Performance Report needed revising in order to comply with the statutory guidance and proper practice. This included disclosures which were missing entirely from the report. See page 25 for further details.</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>
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. Our review identified a significant number of areas where the Accountability Report needed revising in order to comply with the statutory guidance and proper practice. This included disclosures which were missing entirely from the report. See page 25 for further details.</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.	<p>We have confirmed that 2019/20 funding was approved by the SPCB in February 2019. In line with previous years, the SPCB can only confirm approved funding for one year. However, as the Commission is formally appointed for a six year fixed term, with the current Commission in year four of that appointment, we are satisfied that there are not any indications that funding from the SPCB will cease in future years.</p> <p>We also note that the current Strategic Plan covers the period 2016-2020, with a new one currently being developed for implementation in 2020 demonstrating that the Commission will be a going concern for 12 months from signing the accounts.</p>

# Audit dimensions



# Audit dimensions

## 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 areas. As set out in our plan, due to the relative size and scale of the functions delivered by the Commission, 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 Board 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.

### **Best Value (BV)**

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration 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 audit dimensions work.

### **Specific risks (SR)**

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

**SR 1** – EU Withdrawal

**SR 2** – Changing landscape for public financial management

**SR 3** – Dependency on key suppliers

**SR 4** – Openness and transparency

# Governance statement

## Overview

The FReM requires a **governance statement** to be published with the financial statements. Guidance on content is provided in the governance statements section of the SPFM which sets out the essential features.

As set out in our audit plan, there is a risk that the governance statement is inconsistent with the financial statements and is not in accordance with the SPFM. There is also a risk that the statement is inconsistent with our knowledge as auditors of the Commission or is potentially misleading.

### Deloitte View

We have reviewed the draft governance statement for consistency with the financial statements and our knowledge gained during the audit. No inconsistencies have been noted.

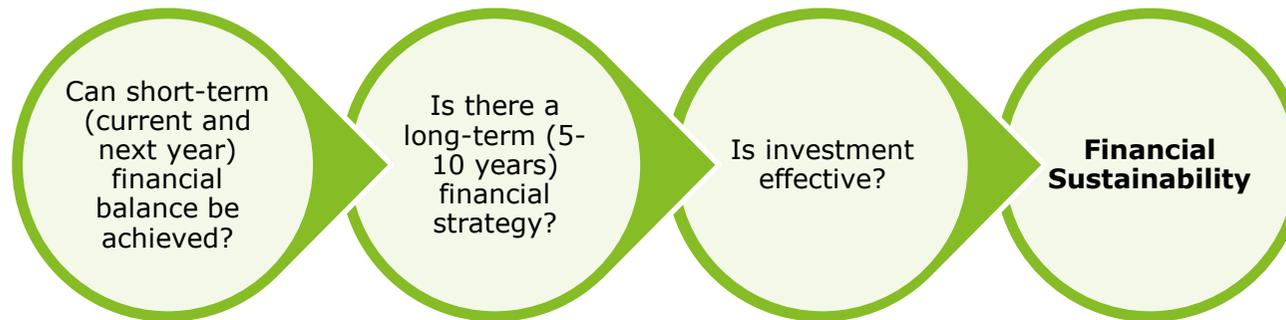
We have also reviewed the draft governance statement to assess compliance with the SPFM and have confirmed that it follows the format and content of the SPFM, incorporating all essential features.

We have noted a number of policies which have not been updated or where reviewed have not been marked as reviewed. We would recommend that the Commission review its policies and procedures on a regular basis.

# Financial sustainability

## Overview

**Financial sustainability** looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



### **Audit risks**

Within our audit plan we identified a number of risks as follows:

- There is a risk that the Commission does not have a robust financial reporting procedure in place to enable effective scrutiny of the budgets allocated by the SPCB.
- There is a risk that the Commission's long-term financial planning is inconsistent with the Scottish Government's five-year plan.

Our conclusions on the above risks are set out on the following page.

# Financial sustainability (continued)

## 2018/19 budget

The SPCB approved an annual funding budget of £1,044,000 for the financial year 2018/19 including contingency funding of £30,000. The final drawdown, as reported in the financial statements was £979,000, therefore the Commission achieved short term financial sustainability.

Budget monitoring is performed by the Head of Corporate Services on a quarterly basis, and reported to the Commission and Senior Management Team. This process allows variances to be flagged and investigated timeously. The Commission has reported overspends throughout the financial year due to maternity cover, however, at year-end there was an underspend of £65,000 due to reduced property costs as a result of an office move, project costs which are dependent on the projects which are progressed during the financial year and access to a shared data protection officer.

## 2019/20 budget

The SPCB approved an annual funding budget of £974,000 for the financial year 2019/20, a decrease of £70,000 in comparison to 2018/19. This budget is a decrease of £5,000 compared to the actual drawdown in 2018/19 and the Commission has budgeted in line with this figure. As a result we do not expect that the decrease in funding will have an impact on the Commission's ability to meet its statutory functions.

## Standards of conduct for prevention and detection of fraud and error

We have reviewed the Commission's arrangements for the prevention and detection of fraud and irregularities. Overall we found the arrangements to be operating effectively.

## Medium term financial planning

The Commission has managed its budget effectively over the last few years, managing to maintain its costs within the expenditure limits set by SPCB and build business cases where additional resource is needed.

In common with other similar bodies, the Commission only receives funding confirmation from the SPCB for one year, however, in the budget bid for the 2020/21 financial year the Commission has submitted three year financial projections and a business case for significantly increased funding as a result of increased activity. Whilst this shows that the organisation is planning for the medium term the Commission should endeavour to create a financial strategy which sets out the method of achieving the strategic priorities.

As set out in our audit plan, it is important that the Commission review the potential implications of the Scottish Government's Medium Term Financial Strategy in setting its future medium to longer term plans.

The Commission is required to have a four year Strategic Plan laid before Parliament setting out how she will perform her functions during this period. The 2016-2020 Strategic Plan was laid before the Scottish Parliament in advance of March 2016. This incorporates, at a high level, indicative funding requirements for the four year period. We understand that the next plan is being developed and has been issued in draft to the SPCB as part of the business case for increased funding over the next three years.

### Deloitte View – Financial sustainability

The Commission performed within the limits set by the SPCB and therefore achieved short term financial balance in 2018/19. A balanced budget has been set for 2019/20 and robust financial reporting procedures are in place.

In common with other similar bodies, the Commission only receives funding confirmation from the SPCB for one year, therefore has not prepared a medium or long term financial strategy. It does, however, have a four year Strategic Plan, which includes a high level assessment of the resources required and three year financial projections that sit alongside this. It is important that the Commission consider the potential implications of the Scottish Government's Medium Term Financial Strategy in setting future medium to longer term plans.

# Other specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work the Commission has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	<p>The Commission has appropriately assessed and planned for the potential impact of EU withdrawal. In particular:</p> <ul style="list-style-type: none"> <li>• <b>People and skills</b> - the Commission is not aware of any direct implications of EU withdrawal with regard to staff and workforce planning.</li> <li>• <b>Finance</b> – the Commission do not receive any funding from the EU therefore no risk identified.</li> <li>• <b>Rules and regulations</b> – the Commission is not aware of any direct implications as a result of changes to trade and customs which would affect their supply chains and the cost and availability of products.</li> </ul> <p>The Commission is closely monitoring developments, engaging with the SPCB, taking account of advice and guidance from the Scottish Government and engaging with stakeholder groups. We are therefore satisfied that the Commission is sufficiently prepared.</p>
Changing landscape for public financial management	As part of our audit work on financial sustainability (see page 18) we have considered how the Commission has reviewed the potential implications of the Scottish Government’s Medium Term Financial Strategy for its own long term planning.	As noted on page 18, the Commission does not currently prepare a medium or longer term financial plan. We recommend that it considers the implications of the Scottish Government’s Medium Term Financial Strategy for its long term planning in any future medium to long term plans.
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed an analysis to identify if there were any risks of dependency on key suppliers.	<p>Our analysis showed that 10 suppliers made up 79% of the Commission’s expenditure in the prior year and 75% in the current year with the majority of payments relating to HM Revenue and Customs and the Cabinet Office.</p> <p>SHRC have business continuity plans in the event of supplier failure and this level of expenditure is within our expectations. Therefore, due to the business continuity plans in place and services offered by the identified suppliers, we don't foresee any specific risks of "supplier failure" in the current year.</p>
Openness and transparency	We have considered the Commission’s approach to openness and transparency as part of our audit work on governance and transparency (see page 21).	From our audit work, we are satisfied that the Commission is appropriately open and transparent in its operations and decision-making and applies a number of areas of good practice. However, there are a number of policies such as the risk management policy which are out of date and have not been reviewed for several years. We have raised a recommendation for this on page 26 and 27.

# Other specific risks (continued)

## Openness and transparency

### Openness and transparency

Taking an **open approach** to business can support good governance.

It is about behaviours, centred on a preference for sharing information about how and why decisions are made. In the public sector, this is based on the recognition that public services are delivered for the public good using public money.



**Transparency** can be seen as a process. Access to information provides insight into decision-making and how the organisation works. Transparency in the public sector is supported by statutory requirements and regulations. These are minimum requirements and it is for individual organisations to decide whether the content and volume (in terms of quantity and amount of detail) of the information that they make available contributes to increased understanding. There are judgements to be made, and an approach designed to increase transparency rather than comply with minimum standards is more likely to satisfy the good governance test.

**Openness and transparency** are individually important, and working well together they help demonstrate that public organisations are acting in the public interest.

We have considered the Commission's approach to openness and transparency, how good its information is; and its commitment to improving openness and transparency and concluded:-

- The Commission has a positive attitude to openness and transparency and places a high level of importance on both informing and consulting staff.
- The Commission's first strategic aim is to support the ongoing development of Scottish public sector culture and practice where the sharing and disclosing of information is routine.
- Corporate information, including strategic and operation plans, senior management team minutes and related committee reports, KPIs and financial performance, is available through the Commission website.



# 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 Commission discharge its 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 Commission.

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.

### 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 again in this report.

This report has been prepared for the Commission, 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.

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



**Pat Kenny**

for and on behalf of Deloitte LLP  
Glasgow

5 November 2019

# Audit adjustments

## Summary of corrected and uncorrected misstatements and disclosure deficiencies

### Corrected misstatements

	Debit/ (credit) income statement £k	Debit/ (credit) in net assets £k	Debit/ (credit) prior year retained earnings £k	Debit/ (credit) in revenue £k
<b>Misstatements identified in current year</b>				
Cash Rounding	[1]	-		
Intangibles	[2]	-		
<b>Total</b>		-		

[1] During the audit it was identified that the cash balance has been rounded up. We do not recommend that cash is rounded, given that it is agreeable to third party confirmation. (£1,000)

[2] During the audit it was identified that the intangibles note did not tie to the FAR due to the rounding of depreciation, meaning that the note showed a nil NBV where a NBV was in existence. (£1,000)

No other corrected misstatements have been identified from our audit work performed to date.

### Uncorrected misstatements

No uncorrected misstatements have been identified from our audit work performed to date.

### Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. See page 25 for the items highlighted as disclosure misstatements.

# Audit adjustments (continued)

## Summary of corrected and uncorrected misstatements and disclosure deficiencies (continued)

### Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable the Advisory Audit Board to evaluate the impact of those matters on the financial statements. We identified the following disclosure misstatements that were corrected by management:

Note	Description
Performance Overview	<p>The FReM requires the following disclosure within the Performance Overview:</p> <ul style="list-style-type: none"><li>- A short summary explaining the purpose of the overview section;</li><li>- A statement from the entity's lead Minister or Chief Executive providing their perspective on the performance of the organisation over the period; and</li><li>- A performance summary.</li></ul>
Performance Analysis	<p>The FReM requires the following disclosure within the Performance Analysis:</p> <ul style="list-style-type: none"><li>- Information on how the entity measures performance i.e. what the entity sees as its key performance measures, how it checks performance against those measures and narrative to explain the link between KPIs, risk and uncertainty; and</li><li>- A more detailed analysis and explanation of the development and performance of the entity during the year and an explanation of the relationships and linkages between different pieces of information. This analysis is required to utilise a wide range of data including key financial information from the financial statements section of the accounts.</li></ul>
Performance Analysis	<p>Section 5.2.3 of the FReM states that it must provide a fair, balanced and understandable analysis of the entity's performance, in line with the overarching requirement for the annual report and accounts as a whole to be fair, balanced and understandable.</p> <p>This section seems very positive in terms of the 10 Outcomes and is not balanced. This has been updated to ensure compliance with the FReM.</p>
Future Period	<p>No information provided in the initial draft of this section. This has been updated to include information on the future direction of the organisation.</p>
Remuneration and Staff Report	<p>2018/19 FReM paragraph 5.3.28 has been amended in 2018/19 to reflect The Trade Union (Facility Time Publication Requirements) Regulations 2017 which require employers to publish a range of information in relation to their usage of and spend on trade union facility time. This has been updated and is now disclosed.</p>

# Action plan

## Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Wider Dimension- Financial sustainability</i>	We recommend that the Commission considers the implications of the Scottish Government's Medium Term Financial Strategy for its own finances in any future medium to long term plans. (see page 19 for further details)	<p>The Commission receives funding confirmation from the SPCB for one year, in advance of the financial year to which the funding relates and, therefore, is not able to prepare a medium or long term financial strategy.</p> <p>The current Strategic Plan 2016-20 contains a high level assessment of the resources required over the life of the plan. A new Strategic Plan is being developed and, as far as possible, the Commission will consider and take into account the implications of the Scottish Government's Medium Term Financial Strategy in any future medium or long term plans that are covered by the new Strategic Plan.</p>	Head of Corporate Services	31/03/2020	Medium
<i>Financial Statements - Internal Control: Journals</i>	We recommend that the Commission adopt best practice for journal documentation. (see page 11 for further details).	The recommendations made will be incorporated into practice and policy going forward.	Head of Corporate Services	31/03/2020	Medium
<i>Financial Statements - Internal Control: Policy Review</i>	We recommend that the Commission reviews policies on a rolling basis and appoints a policy owner for each policy who should lead the review of the policy. Where policies have been reviewed but not updated, the review date on the policy should be updated. (see page 11 for further details).	The Commission intends to carry out a full review of policies in 2019/20.	Senior Management Team	31/03/2020	Medium

# Action plan (Continued)

## Recommendations for improvement (Continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial Statements – Internal Control: Accounts Review</i>	We recommend that the annual report and accounts particularly the narrative sections are reviewed against the requirements in the FReM prior to issuing these for audit purposes. (see page 25 for further details)	The Commission intends to review and update its approach to preparing the annual report and accounts for 2019/20. This will include fully reviewing the requirements of the FReM in order to ensure the annual report and accounts are compliant.	Head of Corporate Services	31/03/2020	Medium
<i>Financial Statements – Internal Control: Disposal Documentation</i>	We recommend that documentation in relation to communication of items of Property Plant and Equipment to be disposed and evidence of actual disposal is retained. (see page 12 for further details)	The recommendations made will be incorporated into practice and policy going forward.	Head of Corporate Services	31/03/2020	Low
<i>Financial Statements - Internal Control: Petty Cash</i>	We recommend that the Commission put in place a formal procedure for the posting of petty cash transactions on a more timely basis i.e. monthly and that checks are incorporated to ensure compliance with policies in place. (see page 11 for further details).	Practice regarding posting of petty cash transactions has already been amended, this will also be incorporated into revised procedures.	Head of Corporate Services	31/03/2020	Low

# 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 Commission 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.

We have also asked the Commission 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 operating within expenditure resource limits and management override of controls as key audit risks for your organisation.

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

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

### Concerns:

No concerns have been identified regarding fraud.



# 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:

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**Independence confirmation** We confirm that we comply with FRC's 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.

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**Fees** The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £13,690 as broken down below:

	£
Auditor remuneration	10,530
Audit Scotland fixed charges:	
Pooled costs	2,530
Audit support costs	630
<b>Total fee</b>	<b>13,690</b>

No non-audit fees have been charged by Deloitte in the period.

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**Non-audit services** In our opinion there are no inconsistencies between FRC's 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.

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**Relationships** We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its 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.

We are not aware of any relationships which are required to be disclosed.

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# Deloitte perspectives

## Talking Public Sector: Our podcast series on government and public services

Our podcast explores the big challenges facing the public sector, how citizens want the public services to be run and what the future holds by drawing on expert opinion and exclusive research. Aimed at anyone who works in or with the public sector, this podcast brings together leaders from government and the public services, industry experts and commentators to provide an insight on the big issues facing public bodies in the UK and around the world.

Listen and subscribe to Talking Public Sector:

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

## Tech Trend 2019: A Government and Public Services Perspective

Our recently published 10<sup>th</sup> edition of the Tech Trends report reflects on a decade of disruptive change and demystifies the future of digital transformation. The story of technology trends is inseparable from the story of the public sector.

Technology can help make government more effective by protecting and maintaining infrastructure, creating more personalised and secure citizen interactions, or automating tasks so workers can focus on more value-added jobs.

As leaders work to reshape their organisations and realise these possibilities, they rely on fresh, relevant insights. We are delighted to share [our perspective](#) which provides a UK Government and Public Services lens on Deloitte's *Technology Trends 2019: Beyond the digital frontier*.

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

## Digital government: It's all about the people *a view from Government and Public Sector Lead Partner, Rebecca George*

Deloitte has published our third Digital Disruption Index. Based on a survey of the UK's most senior digital leaders from both private and public sectors, the index explores levels of digital maturity in their organisations. The results reinforce my belief that the defining factor in getting digital right is not the technology – which of course needs to deliver – but is people: the people who lead digital transformation and the people with the skills to make it happen.

Read Rebecca's full view at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/digital-government-all-about-people.html>

The Digital Disruption Index is available online:

<https://www2.deloitte.com/content/campaigns/uk/digital-disruption/digital-disruption/digital-disruption-index.html>

**One of the key insights is around Artificial Intelligence (AI)** which is increasingly a strategic priority. After Cloud, Cyber-security and Data analytics – three foundational digital pillars – respondents to our survey rated AI as the most important technology to their digital strategy.

The use of advanced data science, whether explicitly AI or a combination of AI, Robotic & cognitive automation (RCA) and Data analytics, is at the centre of much current debate about ethics and the societal impact of digital technology. A significant number of senior leaders seem unaware of these ethical considerations. We believe that what is unethical in the real world is unethical in the digital world, and we explore how organisations are able to make AI decision-making as transparent as human decision-making.



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