



**Children and Young People's Commissioner Scotland**  
Report to the Children and Young People's Commissioner Scotland  
and the Auditor General for Scotland on the 2019/20 audit

Issued on 13 November 2020 for the meeting on 24 November 2020

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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 Children and Young People's Commissioner for Scotland ('the Commissioner') for the 2019/20 audit. The scope of our audit was set out within our planning report issued in February 2020.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by the Commissioner's Office in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to stick to the original timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

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. As set out in our plan, in line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the "small body" clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. 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 Commissioner 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.

The performance report and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Commissioner.

The auditable parts of the remuneration 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 9.

No misstatements in excess of our reporting threshold of £1,200 have been identified up to the date of this report. We identified three disclosure deficiencies as detailed on page 28 of this report

### **Conclusions on audit dimensions**

As set out on page 3, our audit work covered the wider scope requirements of public sector audit. The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long-term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While this report makes reference to COVID-19 where relevant, we have not considered the full impact of COVID-19 on the Commissioner's Office at this stage.

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

# Introduction (continued)

## The key messages in this report (continued)

**Financial sustainability** – The Commissioner achieved short term financial balance in 2019/20. A balanced budget has been set for 2020/21 however, the impact of COVID-19 remains a significant risk which could affect the Commissioner achieving short-term financial balance depending on the wider economic impact of the pandemic.

The Commissioner has a strategic plan in place which quantifies the financial resource requirements until 2024. The Commissioner does not have any detailed medium and long term financial plans. While the Commissioner is satisfied that this approach is consistent with the annual funding cycle, we would encourage the Commissioner to develop more longer term planning.

As 78% of the Commissioners expenditure is staff costs, as part of its medium-to-long term planning, it should develop a workforce plan. This should incorporate a review of staff capacity, skills and succession planning. In addition, the Commissioner should conduct a skills audit identifying the required skills, what skills the organisation has and which skills require development including cross-skilling.

From our review of the annual report and subsequent discussions with management, we have identified that there was no consistent ongoing performance monitoring during 2019/20 and that the initial draft of the performance report was not fair and balanced. We recommend that the Commissioner reviews the policies and procedures in place for the development of the annual delivery plan, linked KPI's and monitoring of performance throughout the year. In addition, robust reviews should be undertaken by SMT and the Commissioner SMT to ensure reporting is fair and balanced.

Our detailed findings and conclusions are included on pages 19 to 22 of this report.

### **Next steps**

An agreed Action Plan is included as an Appendix on page 30 of this report. We will consider progress with the agreed actions as part of our 2020/21 audit.

### **Added value**

Our aim is to add value to the Commissioner 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 Commissioner promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report, and in particular, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. Further, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which is open to anyone to join.

# Financial statements audit



# Quality indicators

## Impact on the execution of our audit

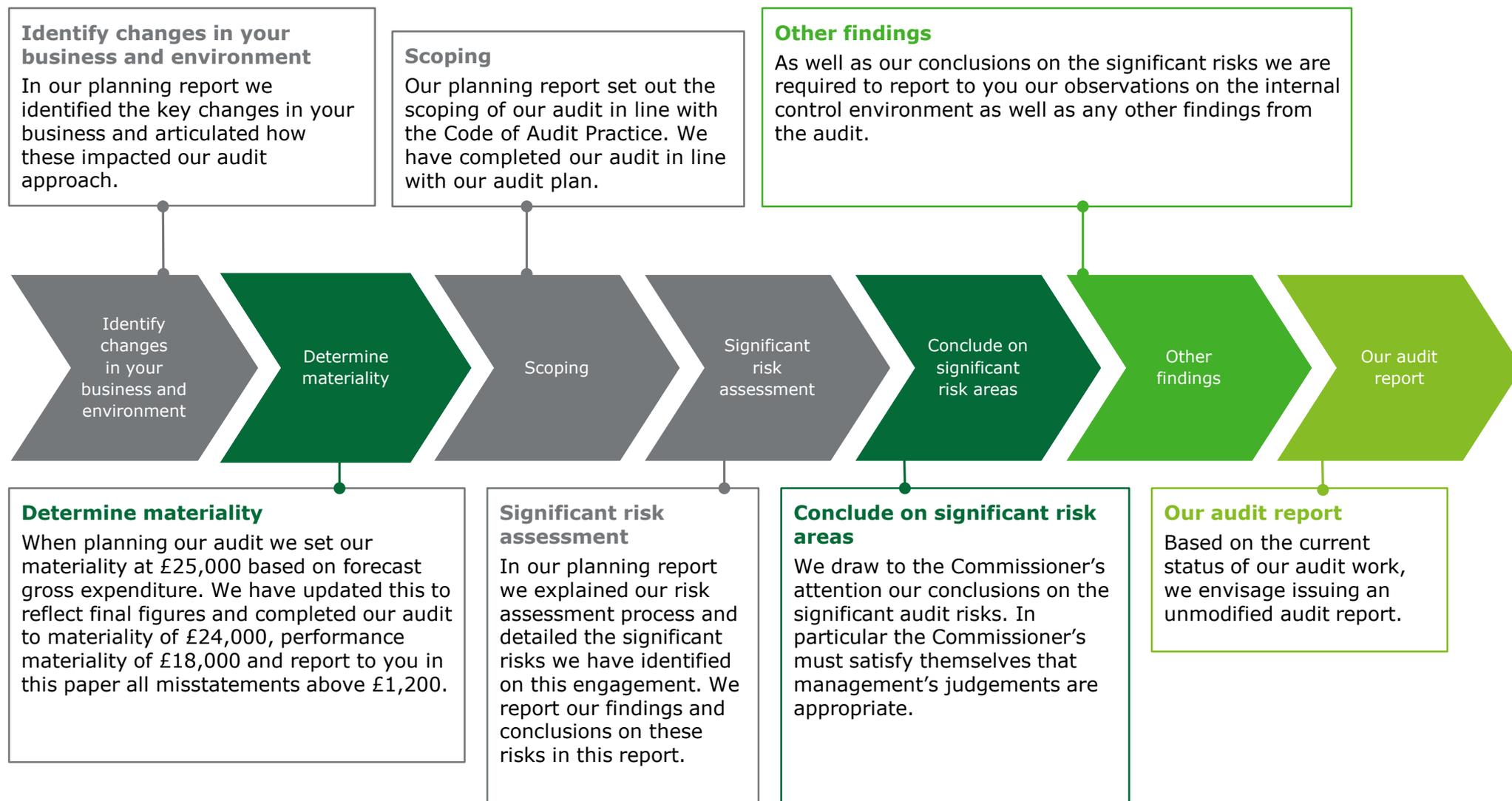
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements		All documentation regarding key accounting judgements was available for the commencement of the audit fieldwork.
Adherence to deliverables timetable		The Deloitte Connect portal was populated in advance of audit fieldwork commencing. On review some of the information uploaded was incomplete however once notified management acted quickly to provide the necessary information.
Access to finance team		Due to unforeseen circumstances, access to the finance team was limited during the scheduled audit fieldwork week which impacted the quality of responses and timeliness. Following this additional meeting were held to complete the audit.
Quality and accuracy of management accounting papers		We did not identify any issues with the quality or accuracy of management accounting papers which were reviewed by the audit team.
Quality of draft financial statements		The initial draft accounts provided required significant updates following audit review including the performance summary and missing intangibles note from the financial statements. These could have been rectified based on completion of the FReM checklists provided to management and a detailed management review.
Response to control deficiencies identified		Management have accepted all internal control recommendations made and have actioned recommendations made in the prior year audit.
Volume and magnitude of identified errors		We have not identified any financial statement misstatements. We have identified a number of disclosure misstatements as detailed on page 28.

 Lagging     Developing     Mature

# Our audit explained

We tailor our audit to your business and your strategy



# 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.
Achievement of expenditure resource limit			D+I	Satisfactory		Satisfactory	10
Management override of controls			D+I	Satisfactory		Satisfactory	11

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

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with the prior year, we do not consider this to be a significant risk for the Commissioner's Office as there is little incentive to manipulate revenue recognition with the majority of revenue being from the Scottish Parliamentary Corporate Body (SPCB) which can be agreed to confirmations supplied.

We therefore consider the fraud risk to be focused on how management operate within the expenditure resource limits set by the SPCB. There is a risk that the Commissioner's Office 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 completeness of accruals and existence of 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 SPCB. Our work in this area included the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
- Obtaining independent confirmation of the resource limits allocated to the Commissioner by the SPCB;
- 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 that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers. We confirm that the Commissioner has performed within the limits set by the SPCB and therefore is in compliance with the financial targets 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 Commissioners' controls for specific transactions.



The key judgments in the financial statements includes those which we have selected to be significant audit risks around achievement of expenditure resource limits. This is inherently the 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 Commissioners' results throughout the year were projecting underspends in operational areas. This was closely monitored and whilst projecting underspends, 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, with no issues noted.

We have used Spotlight 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 and judgements

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud.

We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements (including accruals), focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

No misstatements have been identified in the current year.

### Deloitte view

We have not identified any significant bias in the key judgements made by management.

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

# Coronavirus (COVID-19) outbreak

## Impact on the annual report and audit

The current crisis is unprecedented in recent times. The Public Sector is directly exposed to the practical challenges and tragedies of the pandemic, and is undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon reporting and audit processes, and present new issues and judgements that management and the Commissioner needs to consider. Audit Scotland has issued guidance relating to the impacts on the annual report to assist in making relevant disclosures. We summarise below the key impacts on reporting and audit:

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### Impact on the annual report and accounts

The Commissioner needs to consider the impact of the outbreak on the annual report and accounts, including:

- Principal risk disclosures;
- Change in the funding regime for 20/21;
- Impairment of non-current assets;
- Allowance for expected credit losses; and
- Going concern.

### Impact on our audit

COVID-19 has fundamentally changed the way we have conducted our audit this year including:

- Teams are working remotely with some challenges in efficiency due to communication and deliverables.
  - The teams have had regular status updates to discuss progress and facilitate the flow of information.
  - Consideration of impacts on the areas of the financial statements and annual report listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.
  - In conjunction with management, we will continue to consider any developments for potential impact up to the finalisation of our work in November 2020.
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# 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
<b>Management Review</b>	During the audit we have identified a number of items in the annual report and accounts that management could have identified as part of a management review prior to submission to audit. A detailed management review should be undertaken of the annual report and accounts including checking of compliance against the FReM, matching of the annual accounts to underlying accounting records as well as a proof read. All issues should be rectified prior to submission to audit.	

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

## Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

### **Qualitative aspects of your accounting practices:**

As highlighted on page 16 and the disclosure misstatements identified on page 28 we have identified a number of issues in relation to the disclosures within the annual report and accounts.

### **Other matters relevant to financial reporting:**

As highlighted on page 21, we have raised concern around the capacity of the organisation to respond in the event of sickness as has occurred in 2020/21 particularly in relation to the preparation of the annual report and accounts.

### **Significant matters discussed with management:**

All matters highlighted throughout this report have been discussed with management. In particular we have highlighted concern with the initial draft accounts presented for audit.

We will obtain written representations from the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

# 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**

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 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 and accounts are 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 16.

# 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 performance report are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the Commissioner's performance, both financial and non-financial. It also sets out the key risks and uncertainty for the organisation.	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. Following significant updates for comments raised by the audit team we confirm that the performance report has been prepared in accordance with the accounts direction.</p> <p>The Commissioner has adopted the FReM addendum - which was agreed with the SPCB - and as such was only required to produce a performance overview. The initial performance summary presented was not fair and balanced and required significant updating.</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>Arising from our review of the annual report and following subsequent discussions with management we would highlight some recommendations in relation to performance monitoring and reporting as follows:</p> <p><b>Performance Monitoring</b> - As part of the governance review and improvement programme being developed by the Commissioner, a new employee performance management system linked to the annual delivery plan for 2019/20 was developed. While this is a good step, from a review of the SMT and Governance Group minutes there has been no consistent, ongoing review of the performance against the 2019/20 delivery plan. From discussions with management while various documents were brought to SMT for review departments tracked performance in different ways and therefore it was not monitored consistently.</p> <p><b>Performance Reporting</b> - We understand regular discussions have been held with the SPCB regarding the ongoing capacity issues and highlighted projects that were unable to be completed. However, this was not initially reflected in the performance summary. It is important that the Commissioner recognises that they have a responsibility for openness and transparency in all reporting and appropriately discloses both the challenges and achievements during 2019-20. It is also important to proportionately reflect the impact of COVID-19.</p> <p><b>Recommendation</b> - We recommend that the Commissioner reviews the policies and procedures in place for the development of the annual delivery plan, linked KPI's and monitoring of performance throughout the year. In addition, robust reviews should be undertaken by SMT and the Commissioner to ensure reporting is fair and balanced.</p>

## Your annual report (continued)

	Requirement	Deloitte response
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 were 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, following correction of the disclosure misstatements identified (page 28), 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 2020/21 funding was approved by the SPCB in March 2020. In line with previous years, the SPCB can only confirm approved funding for one year. However, as the Commissioner is formally appointed for a 6 year fixed term, with the current Commissioner in year 4 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 2020-2024 demonstrating that the Commissioner's Office will be a going concern for 12 months from signing the accounts.</p>

# Audit dimensions



# Audit dimensions

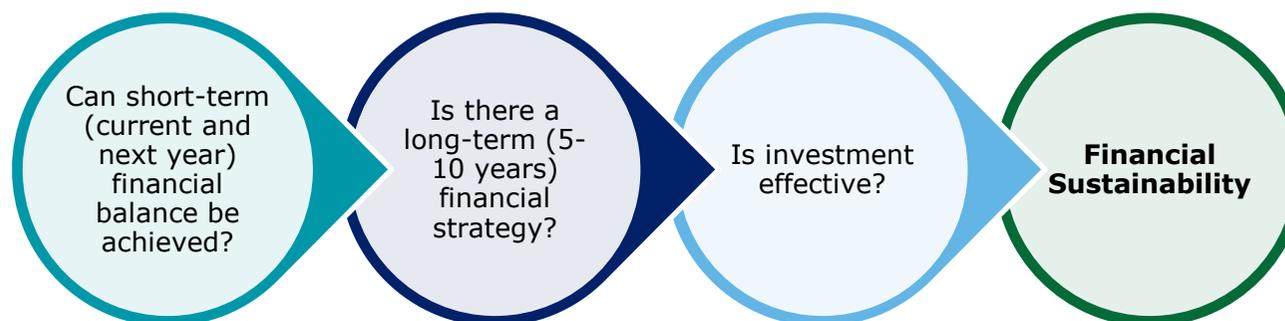
## Overview

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, in line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the “small body” clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. Our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the **governance statement** (which is discussed on page 16); and
- The **financial sustainability** of the Board/ Partnership and the services that it delivers over the medium to longer term.

## Financial sustainability

**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.



Our approach to the audit dimensions is risk-focused. We have provided an update for the Commissioner’s Office on all areas considered in the prior year audit report to monitor improvement. The risks identified in our planning paper for 2019/20 were as follows:

- That the governance statement is not consistent with the wider direction of the accounts or compliant with the Scottish Public Finance Manual.
- There is a risk that the financial planning systems in place do not adequately identify issues, risks and funding gaps including relevant actions. This leads to a risk of not meeting the statutory remit, delivering business plan or strategic objectives.

# Audit dimensions (continued)

## Financial Sustainability (continued)

### Short term financial balance

**2018/19 Conclusion:** The Commissioner 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.

**2019/20 Update:** The SPCB approved an annual funding budget of £1,288k for the financial year 2019/20. During 2019/20 the SPCB awarded contingency funding however this was not required.

The outturn for 2019/20 was £1,288k which is an underspend against budget of £25k. Therefore in 2019/20 the Commissioner achieved short term financial balance.

The SPCB approved a balanced budget of £1,311k for 2020/21 in March 2020. This is a increase of £49k on the actual drawdown in 2019/20 and the Commissioner has budgeted in line with this figure.

**2019/20 Conclusion:** The Commissioner performed within the limits set by the SPCB and therefore achieved short term financial balance in 2019/20. A balanced budget has been set for 2020/21 and robust financial reporting procedures are in place.

### Medium term financial planning

**2018/19 Conclusion:** In common with other similar bodies, the Commissioner 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 2 year Strategic Plan, which includes a high level assessment of the resources required. It is important that the Commissioner consider the potential implications on the work of the Commissioner arising from the Scottish Government's Medium Term Financial Strategy in setting future medium to longer term plans.

**2019/20 Update:** The Commissioner has considered the Scottish Government's Medium Term Financial Strategy in the development of its Strategic Plan and financial budgeting.

In 2019/20 a new Strategic Plan was developed for the period 2020-24. In developing the plan the Commissioner has consulted extensively with children and young people in a variety of ways. The consultation included a three day residential event ("The Gathering").

The Strategic Plan clearly identifies two priorities which could be linked to national outcomes. The plan includes estimates for the resources required for the period of the plan. This does not include any sensitivity analysis and there is no further medium term financial planning i.e. assumptions, sensitivity analysis and scenario planning in place which is best practice for all organisations.

**2019/20 Conclusion:** The Commissioner has a strategic plan in place which expected financial resources until 2024 however this does not include any assumptions made or sensitivity analysis. The Commissioner does not have any medium or long term financial planning in place which could include detailed assumptions, sensitivity analysis and scenario planning. This is as a result of not being able to obtain multi year funding we would highlight that this planning should be in place for all organisations.

# Audit dimensions (continued)

## Financial Sustainability (continued)

### Workforce Planning

As staff costs comprise 78% of total costs, it is important that as part of medium term financial planning that a workforce plan is in place. There is a risk that lack of financial planning leads to not meeting the statutory remit, delivering on strategic objective and the delivery plan for the year.

**Capacity:** We note from discussions with management that lack of staff capacity has had an impact on performance, but as there has been no consistent ongoing review of performance against plan, it is not possible to confirm. As disclosed in the annual report there have been three periods of long-term sickness during 2019/20. This level of sickness and other factors can have a significant impact given the low staff base of 14 employees. Long-term sickness is a recurrent issue for the organisation and where it involves a member of SMT it reduces SMT capacity by 25%. The Commissioner understands the underlying reasons for absence and has appropriate absence management policies in place.

This is further evidenced by the £25k underspend on budget and the significant underspend against budget in the promotion and participation budget line of £77k. As disclosed in the performance report some projects were unable to be undertaken due to capacity shortages.

**Skills:** In addition, the Commissioner should assess the skill set available at their disposal by completing a skills audit to ensure that any gaps in capacity are not exacerbated by skills shortages. In particular, the Commissioner should ensure cross skilling of SMT for resilience. We note the skills audit was initially discussed in 2019/20 and scheduled for 2020/21 but has been subject to delay as a result of COVID-19.

In 2019/20 the Commissioner has made some changes including the appointment of a new Finance Officer however, as evidenced by the issues highlighted in this report there is still further work to be completed to increase the financial capacity of the organisation and in particular knowledge of the FReM. Financial capacity should not be limited to the finance function and should involve all of SMT to ensure robust review.

We expect that COVID-19 restrictions will have further exacerbated any existing capacity restraints and therefore we will review in detail the Commissioners response to the restrictions and dealing with the challenges faced.

**Recommendation:** As 78% of the Commissioners expenditure is staff costs, as part of its medium-to-long term planning, it should develop a workforce plan. This should incorporate a review of staff capacity, skills and succession planning. In addition, the Commissioner should conduct a skills audit identifying the required skills, what skills the organisation has and which skills require development including cross-skilling.

## Audit dimensions (continued)

### Financial Sustainability (continued)

#### **Deloitte View – Financial sustainability**

The Commissioner achieved short term financial balance in 2019/20. A balanced budget has been set for 2020/21 however, the impact of COVID-19 remains a significant risk which could impact on the Commissioner achieving short-term financial balance depending on the wider economic impact of the pandemic.

The Commissioner has a strategic plan in place which quantifies the financial resource requirements until 2024. The Commissioner does not have any detailed medium and long term financial plans. While the Commissioner is satisfied that this approach is consistent with the annual funding cycle, we would encourage the Commissioner to develop more longer term planning.

As 78% of the Commissioner's expenditure is staff costs, as part of its medium-to-long term planning, it should develop a workforce plan. This should incorporate a review of staff capacity, skills and succession planning. In addition, the Commissioner should conduct a skills audit identifying the required skills, what skills the organisation has and which skills require development including cross-skilling.

## Other requirements

### Fraud considerations

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

We have reviewed the Commissioner's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Commissioner's arrangements to be designed appropriately and implemented.

#### **Deloitte view**

The Commissioner has appropriate arrangements in place for the prevention and detection of fraud and other irregularities.

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

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

### The scope of our work

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

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

### Use of this report

This report has been prepared for the Commissioner, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

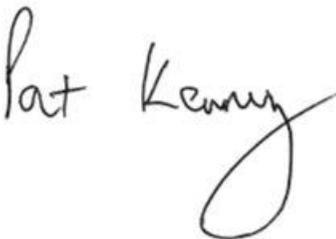
### What we don't report

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

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 procedures performed in fulfilling our audit plan.

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



**Pat Kenny, CPFA**  
**For and on behalf of Deloitte LLP**  
Glasgow | 13 November 2020

# Sector developments



# Sector developments

## Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

### An emerging legacy

#### How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

### Seven emerging legacies:

1. Our view of resilience has been recast
2. Governments could be left with higher debt after a shock to the public finances
3. Debates around inequality and globalisation are renewed
4. Lines have blurred between organisations and sectors
5. The lockdown has accelerated collaborative technologies
6. Civil society has been rebooted and citizen behaviour may change
7. The legacy that still needs to be captured

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

# Sector developments (continued)

## Responding to COVID-19 (continued)

### COVID-19: Preparing for the 'next normal'

As the COVID-19 pandemic continues to unfold there is unlikely to be a rapid or decisive transition from crisis to recovery. Organisations are more likely to face a sequence of operational environments that oscillate between restriction and relaxation, before a final end-state of relative normality.

The first phase of COVID-19 response has been characterised by significant and rapid changes in the way people live their lives and how organisations operate. Many of these changes have been government-mandated. The next phase will be an opportunity for organisations to reflect and plan for a period of uncertainty and disruption. During this period businesses will need to maintain their responsibilities to their customers and staff while modifying operations to meet changes in demand and supply as government restrictions change. They will need to ensure that their recovery is sustainable in terms of resource use and flexible enough to meet change.

Copies of this report can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/risk/articles/preparing-for-the-next-normal.html>

### COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recovery to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/COVID-19-impact-on-the-workforce-insight-for-hr-teams.html>

# Appendices



# Audit adjustments

## Disclosures

### Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which management have corrected but we report to you to assist with you governance responsibilities.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<p>Intangibles</p> <p>Initially there was no intangibles disclosed in the statement of financial position and therefore no supplementary note. This is despite the intangibles still being held and still included in the trial balance (although at zero net book value).</p>	<p>IAS 1 – Presentation of the financial statements</p> <p>Agreement to the underlying accounting records</p>	<p>Qualitative – Complete disclosures should be presented to agree to underlying accounting records</p>
<p>Performance Report</p> <p>The performance report did not contain a non-financial performance summary and the initial disclosure presented was not fair and balanced.</p>	<p>FReM – The performance report must provide a fair, balanced and understandable analysis of the entity’s performance.</p>	<p>Qualitative – Users of the accounts are interested on a balanced account of the performance of the entity</p>

# Audit adjustments (Continued)

## Disclosures (Continued)

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<p>Remuneration Report</p> <p>The following issues were identified with the remuneration report:</p> <ul style="list-style-type: none"><li>- Staff costs and FTE split by permanent and other were initially not presented in the report</li><li>- The pension information was incorrectly disclosed initially not matching the returns provided by the Civil Service Pension Scheme</li><li>- No remuneration policy was initially presented</li><li>- No other employee information was presented covering i.e. health and safety, trade union relationships, diversity and equal treatment</li><li>- The median ratio was incorrectly calculated and should have been calculated using the mid-point of the highest rate band</li><li>- the range of remuneration was incorrectly disclosed</li></ul>	<p>FReM 5.3 - Disclosure requirements of the remuneration report</p>	<p>Qualitative – users of the accounts are interested in the remuneration of the organisation</p>

# Action plan

## Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>Internal Control: Management Review</i>	As discussed on page 13, a detailed management review should be undertaken of the annual report and accounts including checking of compliance against the FReM, matching of the annual accounts to underlying accounting records as well as a proof read. All issues should be rectified prior to submission to audit. If not undertaken this decreases the efficiency of the audit and could lead to increased external audit fees.	The Senior Management Team will undertake training ahead of the next audit to improve reporting compliance against the FReM and develop enhanced internal review processes.  Additional SMT time will be allocated to the audit process.	SMT	August 2021	Medium
2	<i>Financial Sustainability: Workforce Planning</i>	We recommend that the Commissioner reviews the available staff capacity and develops a workforce plan including succession planning. In addition, the Commissioner should conduct a skills audit identifying the required skills, what skills the organisation has and which skills require development including cross-skilling.	A skills audit will be conducted, supported by a review of available staff capacity and professional development plans. A workforce plan will be developed with future review points established.	Head of Corporate Services	March 2021	High
3	<i>Financial Sustainability: Performance Management</i>	We recommend that the Commissioner reviews the policies and procedures in place for the development of the annual delivery plan, linked KPI's and monitoring of performance throughout the year. In addition, robust reviews should be undertaken by SMT and the Commissioner and SMT to ensure reporting is fair and balanced.	A review of policies and procedures is underway, with new Contribution Management plans for staff and clearer annual delivery planning and KPIs. Due to COVID 19, significant changes and a reprioritisation of activity has been necessary for the 2020-21 delivery plan. Performance management is the collective responsibility of SMT.	SMT	March 2021	High

# Action plan (continued)

## Follow-up 2018/19 action plan

We have followed up the recommendations made in our 2018/19 annual report and are pleased to note that 5 of the total 6 recommendations made have been fully implemented. The following recommendations have either not been implemented or are only partially implemented. We will continue to monitor these as part of our 2020/21 audit work..

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
	We recommend that the Risk Management Policy is updated on an annual basis. During the audit the policy was updated in July 2019 from 2014. We recommend that the risk register is updated on a regular basis i.e. quarterly. We would also recommend that this is a standing item on the AAB agenda to gain their input. We understand that since the audit this has been updated.	Both recommendations have been updated and have been discussed widely at the SMT meeting with the risk register featuring on SMT agenda. The Risk Register is a living register updated as risks evolve, although featured on the SMT agenda on a quarterly basis.	Head of Corporate Services	March 2021	Medium	<p><i>Partially implemented</i></p> <p><b>Updated management response:</b> Management have held meetings with AAB members in January 2020. Due to COVID-19 this work has moved online and had not been finalised in 2019/20. The risk register has been considered quarterly by SMT and the risk management policy is expected to be approved in 2020/21.</p> <p><b>Updated target date:</b> March 2021</p>

# Our other responsibilities explained

## Fraud responsibilities and representations



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the 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.

We have also asked the Commissioner 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 expenditure recognition and management override of controls as a key audit risk for your organisation.

During 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 the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Commissioner and our objectivity is not compromised.

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**Fees** The audit fee for 2019/20, in line with the expected fee range provided by Audit Scotland, is £16,510, as analysed below:

	£
Auditor remuneration	12,820
Audit Scotland fixed charges:	
Pooled costs	2,980
Audit support costs	710
<b>Total fee</b>	<b>16,510</b>

No non-audit services fees have been charged for the period.

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**Non-audit services** In our opinion there are no inconsistencies between the FRC's Ethical Standard 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 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. We are not aware of any relationships which are required to be disclosed.

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# Quality of public audit in Scotland

## Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

### Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

### Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.



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