

Scottish Human Rights Commission

Report to the Scottish Human Rights Commission and the
Auditor General for Scotland on the 2019/20 audit

Issued on 13 August 2020 for the meeting on 20 August 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 Scottish Human Rights Commission ('the Commission') for the 2019/20 audit. The scope of our audit was set out within our planning report issued in March 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 Commission 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 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.

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 Commission.

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

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 £860 have been identified up to the date of this report. One disclosure deficiency in relation to the Remuneration and Staff Report has been identified and is included on page 25.

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 Commission at this stage.

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

Financial sustainability – The Commission 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.

The Commission has a strategic plan in place which quantifies the financial resource requirements until 2024. The Commission does not have any medium or long term financial plan in place. A financial strategy is currently being developed by the Commission.

Our detailed findings and conclusions are included on pages 17 to 19 of this report.

Introduction (continued)

The key messages in this report (continued)

Next steps

An agreed Action Plan is included as an Appendix on page 26 of this report. We will consider progress with the agreed actions as part of our 2020/21 audit.

Emerging Issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focusing on the impact of COVID-19. We have provided a summary of those most relevant to the Commission as part of our Sector Developments on page 22 –23 of this report.

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, and in particular from our work, we have provided the Government Financial Reporting Manual (FReM) disclosure checklists and guidance for use by management and have continued to work closely with management to drive improvement in the preparation of the annual report and accounts, which is a key publication for the organisation.

In addition, 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

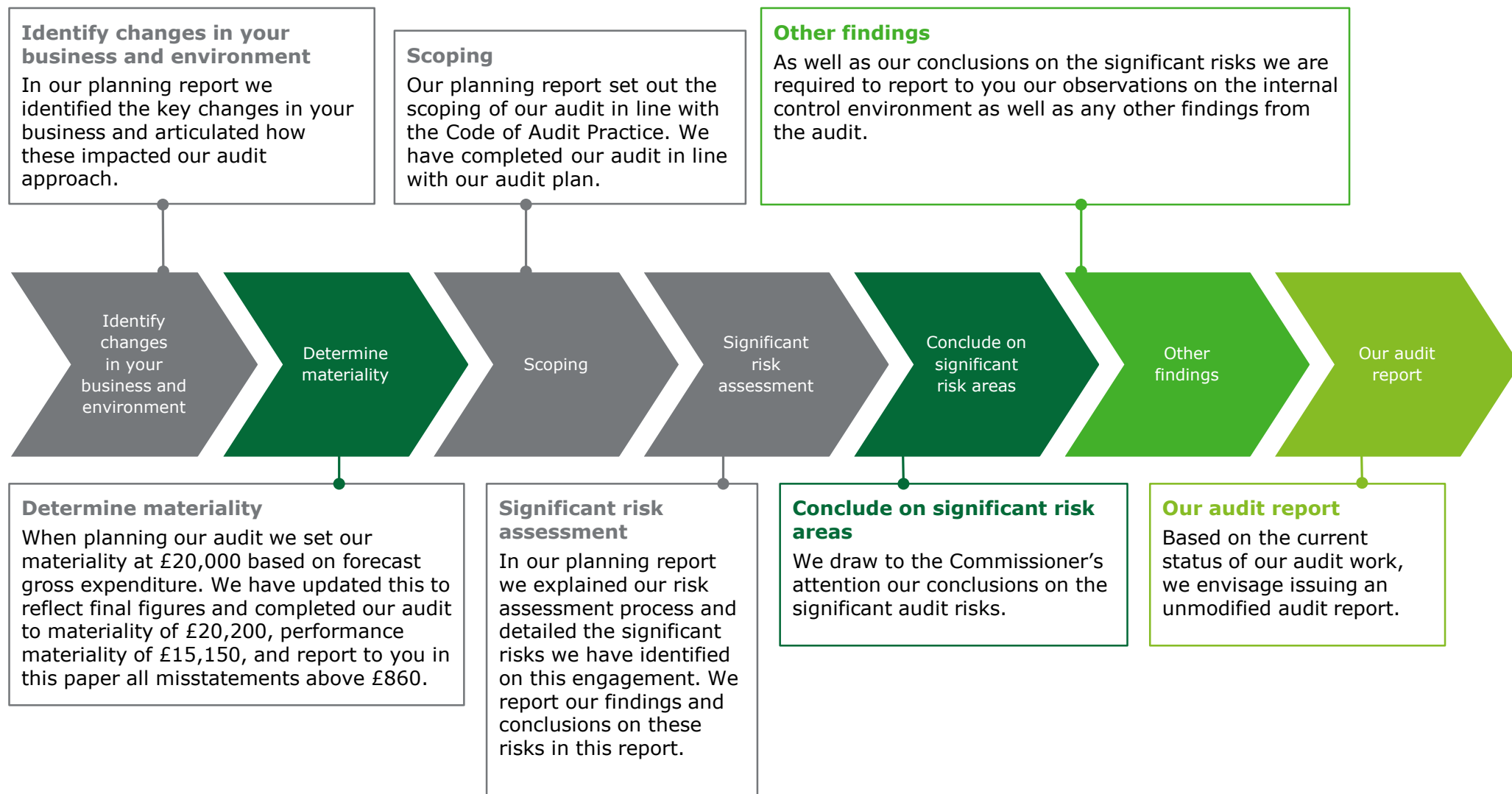
Impact on the execution of our audit

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 judgements had been considered and appropriately documented prior to commencement of the audit.
Adherence to deliverables timetable		Deliverables were provided on a timely basis and in some cases significantly earlier than the deadline. The annual report and accounts were slightly delayed, however Deloitte were kept informed by management and this did not affect the timetable.
Access to finance team and other key personnel		The finance team and other key staff were readily available and the audit has adapted effectively to remote working.
Quality and accuracy of management accounting papers		The management papers presented were of a good standard and no issues arising from our review.
Quality of draft financial statements		From a review of the remuneration and staff report we identified some areas of non-compliance; however overall the quality of the annual accounts were of a high standard. The FReM disclosure checklists and guidance had been utilised by management.
Response to control deficiencies identified		During the audit, we identified one instance of a journal not being appropriately authorised. We are satisfied that staffing changes have addressed this control deficiency.
Volume and magnitude of identified errors		We have not identified any financial misstatements in excess of our reporting threshold of £860. We have identified six of disclosure misstatements in relation to the remuneration and staff report as highlighted on page 25.

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.
Operating within the expenditure resource limits			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 – Operating within the 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 Commission as there is little incentive or scope 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 Commission 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 accruals and existence 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. 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.



Key judgements and our challenge of them

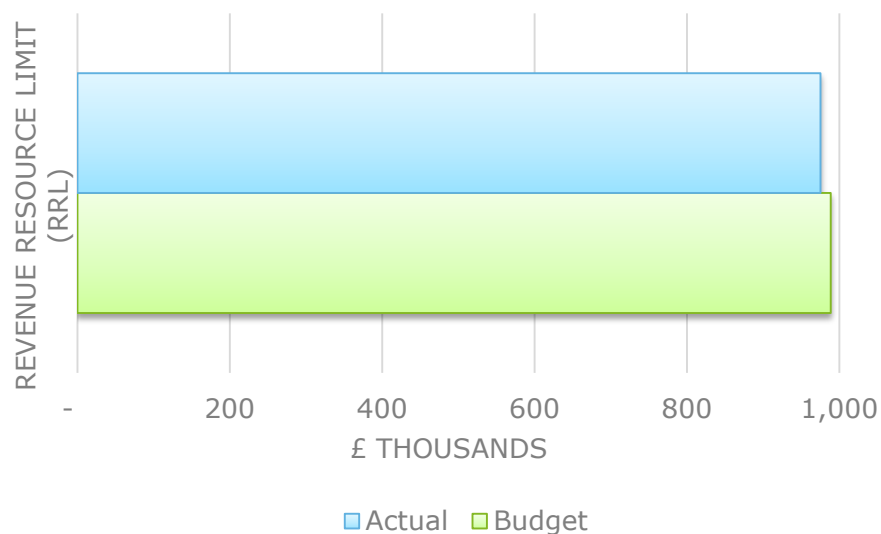
Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.



Deloitte response

We have evaluated the results of our audit testing in the context of 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 that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers. We have not identified any audit adjustments or disclosure deficiencies in relation to the achievement of expenditure resource limits.

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 Commission's controls for specific transactions.



The key judgments in the financial statements include those which we have selected to be significant audit risks around achievement of expenditure resource limits. These are inherently the areas 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 overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood and regular discussions were held with SPCB; 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, we identified one issue as highlighted on page 7.

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).

Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

No misstatements were identified in the current year.

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. While one journal tested was not appropriately authorised, it was supported by sufficient evidence.

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:

Impact on the annual report and accounts

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

- Principal risk disclosures
- Impairment of non-current assets
- 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 and have adapted well, however with some challenges due to communication.
 - The teams have had regular status updates to discuss progress and facilitate the flow of information.
 - The timetable of the audit has been shorter given the slight delay in receiving a first draft of the annual report and accounts, however this was highlighted at an early stage and the timetable has been met.
 - 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 August 2020.
-

Other significant findings

Financial reporting findings

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

Qualitative aspects of your accounting practices:

The SHRC accounts have been prepared in accordance with the FReM following adjustments made by management as highlighted on page 25.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation.

We will obtain written representations from the Commissioner 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 is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

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

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

Your annual report

We 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 Commission's performance, both financial and non-financial.	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. We have not identified any exceptions through our work.</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. 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 confirmed that following updates it has been prepared in accordance with the accounts direction. Disclosure deficiencies identified are included on page 25 of this report.</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 Commission is formally appointed for a six year fixed term, with the current Commission in year five 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 Commission will be a going concern for 12 months from signing the accounts.</p>

Audit dimensions



Audit dimensions

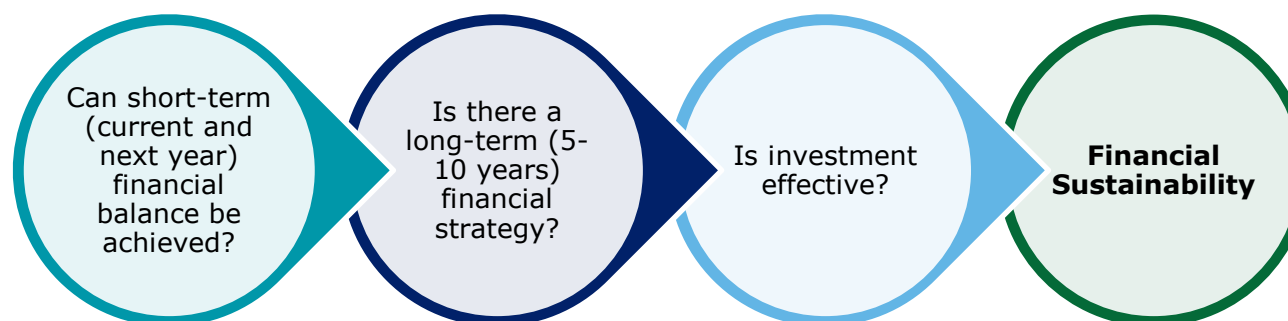
Overview

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, 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 15); and
- The **financial sustainability** of the Commission 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 Commission 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. 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 SPFM.
- 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 the Commission not meeting its statutory remit, delivering its business plan or its strategic objectives.

Audit dimensions (continued)

Short-term financial balance

2018/19 Conclusion: 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.

2019/20 Update: The SPCB approved an annual funding budget of £974k for the financial year 2019/20. During 2019/20 this has increased as a result of contingency funding for pension rate increase costs (£18k) and maternity cover (£6k); however was reduced for building running costs of £3.4k (Scottish Public Services Ombudsman meets the costs under the shared services agreement).

The outturn for 2019/20 was £975k which is an underspend against budget of £13k. Therefore in 2019/20 the Commission achieved short-term financial balance.

The SPCB approved a balanced funding budget of £1,010k for 2020/21 in March 2020. This is an increase of £35k on the actual drawdown in 2019/20 and the Commission has budgeted in line with this figure. As a result we do not expect that the increase in funding will have an impact on the Commission's ability to meet its statutory functions.

2019/20 Conclusion: The Commission 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 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.

2019/20 Update:

The new Strategic Plan covering 2020 – 2024 was published in March 2020. The strategic plan does not link the strategic priorities identified to any applicable national outcomes.

The Strategic Plan clearly identifies the expected financial resource requirements over the life of the plan. This however does not contain any sensitivity analysis based on demand or the assumptions made in formulating the analysis.

The Commission has considered the Scottish Government's Medium-Term Financial Strategy when drafting their Strategic Plan to ensure it is not inconsistent with the Scottish Government's direction of travel.

Audit dimensions (continued)

Medium-term financial planning (continued)

2019/20 Conclusion: The Commission has a strategic plan in place which expected financial resources until 2024; however this does not include any assumptions made or sensitivity analysis. The Commission does not have any medium or long term financial plan in place which is as a result of not being able to obtain multi year funding. A financial strategy is currently being developed by the Commission.

Deloitte View – Financial sustainability

The Commission 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 Commission achieving short-term financial balance depending on the wider economic impact of the pandemic.

The Commission has a strategic plan in place which quantifies the financial resource requirements until 2024. The Commission does not have any medium or long term financial plan in place. A financial strategy is currently being developed by the Commission.

Other requirements

Fraud considerations

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 Commission's arrangements to be operating effectively.

Deloitte view

The Commission 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 Commission 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 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.


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 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 August 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: Lockdown exit and recovery

Whilst many things remain uncertain in the current environment, it is increasingly clear that many organisations are beginning to plan for the easing of the lockdown.

Two documents have been developed to support you in your thinking:

- **Lockdown exit and recovery:**– Based on insight from Henry Nicholson, our Chief Strategy Officer and our Economic and Financial Advisory Team, this document provides an overview of economic forecasts to predictions around exit strategies, potential economic impact, plus key considerations to consider in relation to: Supply, Demand, Operations, People and Financing
- **Exit timelines:** This document provides an overview for each of the major European countries of their current status, key statistics and a reported or illustrative timeline (as relevant) for their exit strategy. It also includes some actions organisations are taking in the workplace to 'return to work' plus advice for management teams.

Copies of these documents can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/covid19-uk-lockdown-exit-and-recovery.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 recover, 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 corrected disclosure misstatements have been identified up to the date of this report which have been corrected by management.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<p>Remuneration and Staff Report - A number of disclosure deficiencies were identified including:</p> <ul style="list-style-type: none">• Senior employees pension benefits: This should be disclosed as actual rather than banded costs• Fair Pay: The range of remuneration and median remuneration should exclude employer pension contributions and the median ratio should be calculated on the mid point of the band of the highest paid director.• Staff Costs: No staff costs were initially presented. Staff numbers and costs should be split by permanent and other staff.• Staff Composition: No comparative has been presented for the staff composition disclosure.• Trade Union Facility Time disclosure has not been presented in the prescribed format.• In addition, it is not clear which sections are audited and unaudited.	<p>Remuneration and Staff Report disclosures required as per 5.3.21-5.3.28 of the FReM</p> <p>The Trade Union (Facility Time Publication Requirements) Regulations 2017 – These Regulations set out that prescribed bodies must disclose information on trade union facility time in a prescribed format on their website and in the Annual Report and Accounts.</p>	<p>Qualitatively material - Important for the users' understanding of the organisations remuneration, and to ensure compliance with applicable laws and regulations.</p>

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	Financial Statements – Internal Control: Accounts Review	We recommend that the FReM requirements relating to the remuneration and staff report are reviewed and incorporated into the management review of the accounts prior to submission to audit.	Noted – to be incorporated into accounts preparation and review	Head of Corporate Services	March 2021	Medium
2	Wider Dimensions: Financial Sustainability	We recommend that in addition to the high level analysis of resource requirements to 2024 within the Strategic Plan it is supplemented by sensitivity analysis. We note that a financial strategy is being developed by the Commission and this should consider the relevant good practice guidance.	Noted – to be incorporated into financial strategy	Head of Corporate Services	March 2021	Medium

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 4 of the total 6 recommendations made have been fully implemented. The following recommendations have either not been implemented or are only partially implemented.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Wider Dimension: Financial Sustainability	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.	<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	March 2020	Medium	<p><i>Partially implemented</i></p> <p>Updated management response: A Financial Strategy is being drafted to set out medium to long term plans. This will take the SG Medium Term Financial Strategy into account, and inform future budget bids and negotiations with SPCB, as well as considering potential for other sources of funding.</p> <p>Updated target date: March 2021</p>
Financial Statements - Internal Control: Policy Review	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.	The Commission intends to carry out a full review of policies in 2019/20.	Head of Corporate Services	March 2020	Medium	<p><i>Partially implemented</i></p> <p>Updated management response: The Commission has updated its policy schedule and is undertaking an exercise to review all policies. Remaining reviews are scheduled to take place in 2020/21</p> <p>Updated target date: 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 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 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:

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 Commission and our objectivity is not compromised.

Fees

The audit fee for 2019/20, in line with the expected fee range provided by Audit Scotland, is £13,890, as analysed below:

	£
Auditor remuneration	10,150
Audit Scotland fixed charges:	
Pooled costs	2,510
Audit support costs	600
Total fee	13,890

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

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.

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.

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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