

Scottish Public Services Ombudsman

Report to the Scottish Public Services Ombudsman and the
Auditor General for Scotland on the 2019/20 audit

Issued on 17 September 2020 for the meeting on 25 September 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 Ombudsman for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the Ombudsman 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 Ombudsman 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 SPSO 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 SPSO.

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

A summary of our work on the significant risks is provided in the dashboard on page 9.

No misstatements in excess of our reporting threshold of £5,500 have been identified up to the date of this report. One disclosure deficiency has been identified relating to the remuneration and staff report up to the date of this report as detailed 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 Ombudsman at this stage.

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

Financial sustainability – SPSO did not achieve financial balance in 2019/20 although the overspend was agreed with SPCB. SPSO have set a balanced budget for 2020/21; however, the impact of COVID-19 remains a significant risk which could impact on SPSO achieving short-term financial balance depending on the wider economic impact of the pandemic.

SPSO has a strategic plan in place which highlights the effect changes in demand could have on resources. The Ombudsman 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, we would highlight that this planning should be in place for all organisations.

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

No recommendations have been identified in this report.

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 Ombudsman as part of our Sector Developments on pages 22 – 23 of this report.

Added value

Our aim is to add value to SPSO 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 SPSO 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 where we have made recommendations in relation to improving disclosure within the remuneration and staff report.

In addition, as information has emerged 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

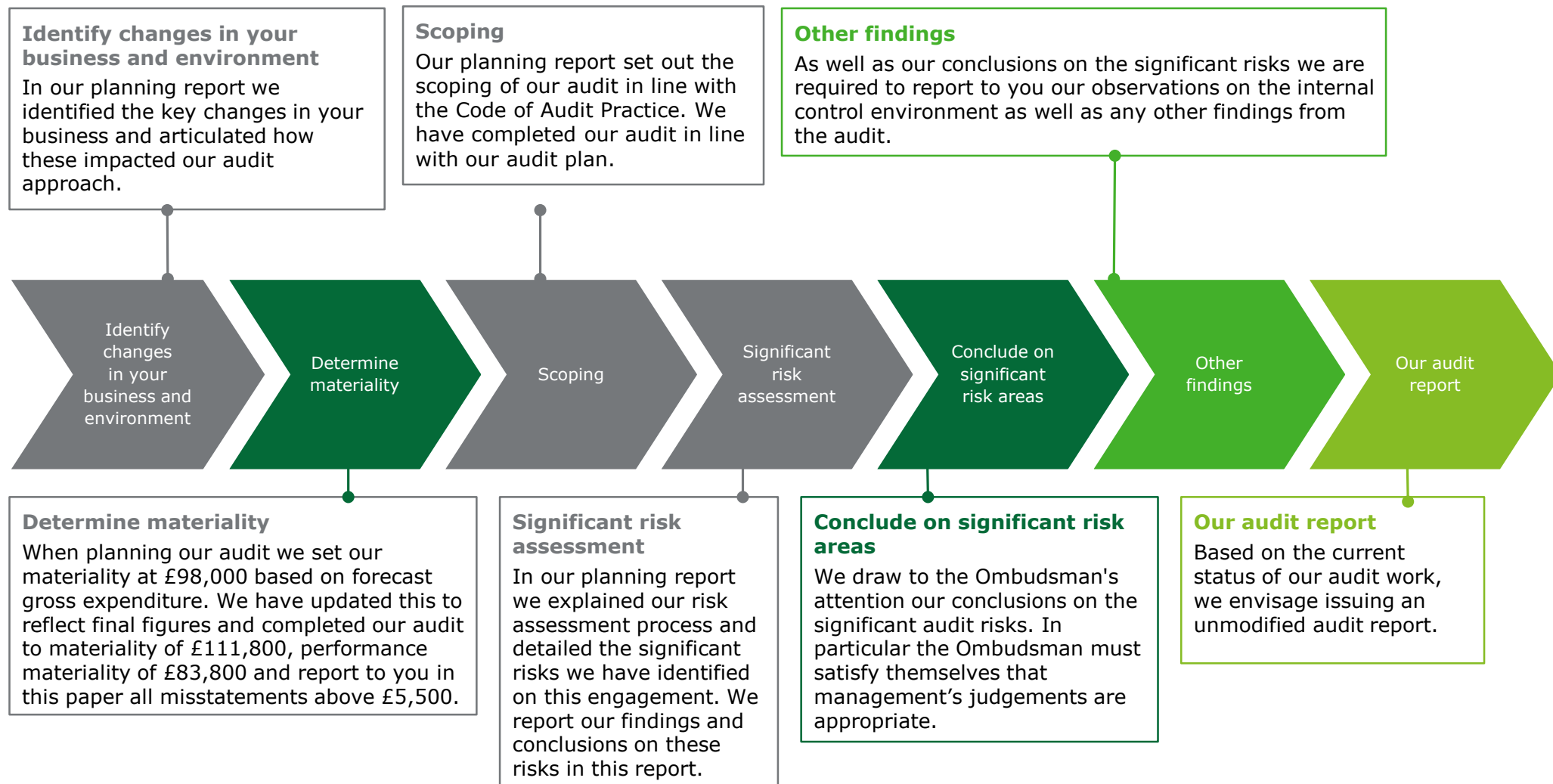
Impact on the execution of our audit

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 information and supporting documentation for judgements made was available on request.
Adherence to deliverables timetable		While some information was not available within the original timetable set this was clearly communicated to Deloitte prior to the audit commencing.
Access to finance team and other key personnel		All finance team and other personnel were accessible during the audit and the communication while working remotely has been effective.
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 were of a good quality, however we highlighted that the overview should be amended so that the lay user has no need to look further into the accounts by increasing the performance summary.
Response to control deficiencies identified		We have not identified any control deficiencies during the course of our audit.
Volume and magnitude of identified errors		We have not identified any financial misstatements during the course of our audit. We did identify disclosure misstatements in relation to the remuneration and staff report which are detailed 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 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 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 SPSO 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 SPSO 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 operating within the limits 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 SPSO 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.

(Under)/over spend in the year



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.

SPSO has not performed within the limits set by the SPCB; however the overspend was agreed by SPCB and therefore is in compliance with the financial targets in the year.

There were significant variations in the over and underspend reported throughout the year however the underlying reasons for the variances from budget were understood.

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 SPSO's controls for specific transactions.

The key judgements in the financial statements are those which we have selected to be the significant audit risk around expenditure recognition.



The key judgements in the financial statements include those which we have selected to be significant audit risk 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:

- SPSO's results throughout the year were projecting an overspend. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

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

Journals

We have performed design and implementation testing of the controls in place for journal approval, 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 and prepayments). Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

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 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 SPSO 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

SPSO 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; 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, however this has worked well.
 - 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 September 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:

Following updates made by management, the SPSO accounts have been prepared in accordance with the Government Financial Reporting Manual (FReM).

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 Ombudsman 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.

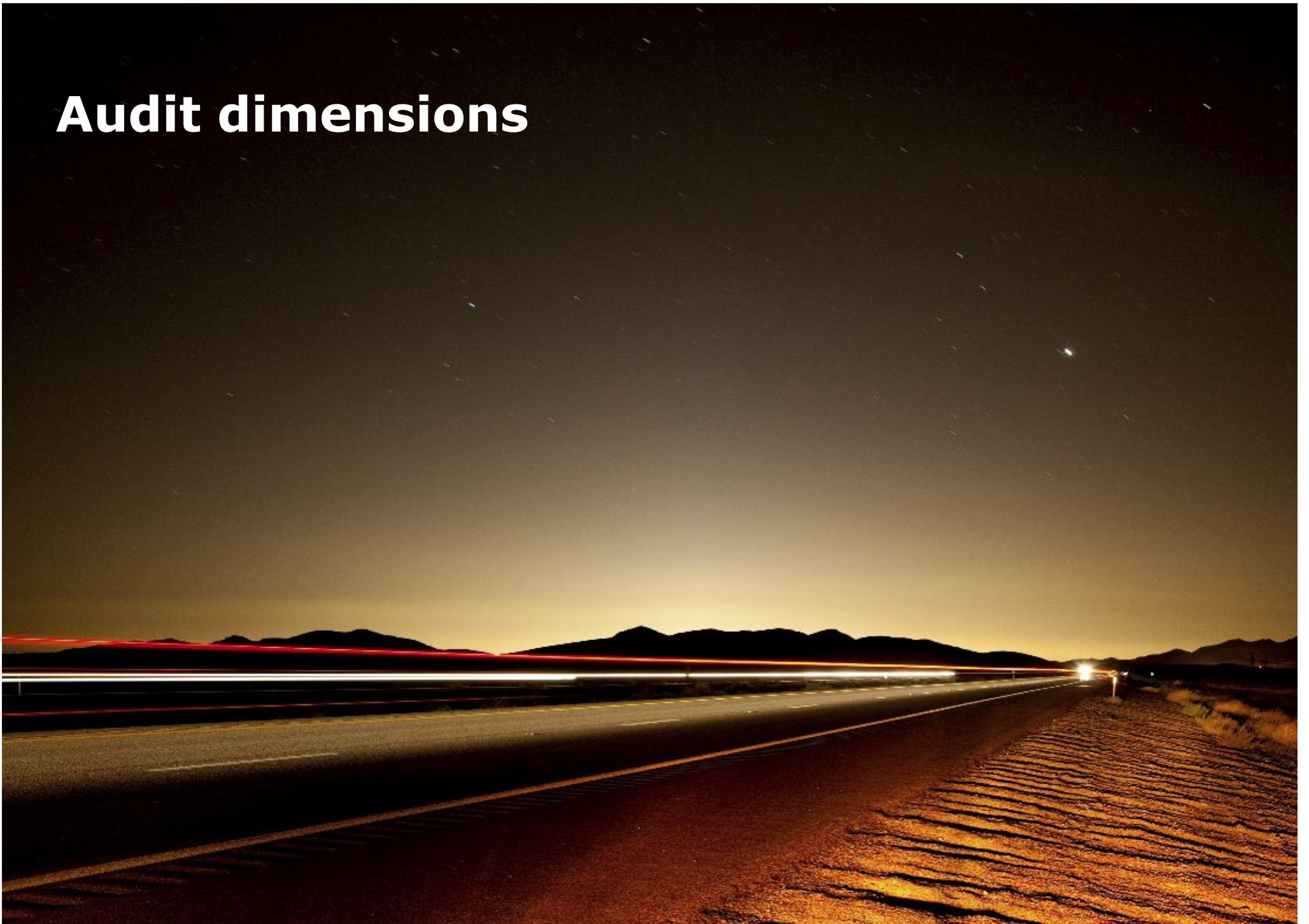
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 15.

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 SPSO's performance, both financial and non-financial. It also sets out the key risks and uncertainties as set out in the Strategic Plan.	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. Following updates made by management relating to the performance overview, we confirm that the report has been prepared in accordance with the accounts direction.</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 following updates for the disclosure deficiencies (page 25) 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.	The 2020/21 budget was approved by the SPCB on 10 March 2020. We have concluded that the plan is sufficiently robust to demonstrate that SPSO will be a going concern for 12 months from signing the accounts.

Audit dimensions



Audit dimensions

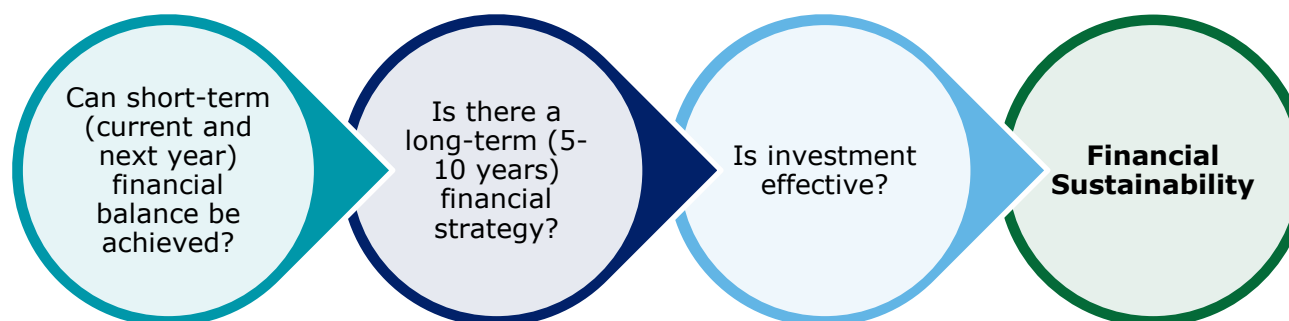
Overview

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 SPSO 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. 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 to achieving future years financial sustainability whilst meeting statutory duties (including new powers), business plan objectives and implementing 5 IT projects in 2019/20.

Audit dimensions (continued)

Short-term financial balance

2018/19 Conclusion: SPSO 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:

SPSO approved an annual budget of £4,516k for 2019/20 on 28 February 2019. This incorporates an annual funding budget of £4,205k and an accommodation budget of £311k to reflect the shared accommodation arrangements.

SPCB approved a revised annual budget of £5,001k for 2019/20. This incorporates an annual funding budget of £4,666k and an accommodation budget of £335k to reflect the shared accommodation arrangements within Bridgeside House (BSH).

The increases in budget related to the additional responsibilities for Independent National Whistleblowing Officer (INWO) (£218k), Pension Costs (£108k), Maternity Cover (£48k), BSH building coordinator (£30k) and Essential IT Costs (£62k).

The outturn for 2019/20 is £5,144k with an increased drawdown from SPCB of £5,001k. Based on this, SPSO did not achieve financial balance for 2019/20.

This was due to the following:

- Unfunded element of pension cost increases (£69k)
- BSH Costs including service charge increases (£41k)

SPCB approved the 2020/21 budget for £5,169k and contingency of £49k (temporary Scottish Welfare Fund (SWF) officer) on 10 March 2020.

SPSO completed all of the IT projects scheduled for 2019/20 with all systems in use by 31 March 2020.

2019/20 Conclusion: SPSO did not achieve financial balance in 2019/20 although the overspend was agreed with SPCB. SPSO have set a balanced budget for 2020/21; however, the impact of COVID-19 remains a significant risk which could impact on SPSO achieving short-term financial balance depending on the wider economic impact of the pandemic.

Audit dimensions (continued)

Medium term financial planning

2018/19 Conclusion: In common with other similar bodies, SPSO only receives funding confirmation from the SPCB for one year, therefore it 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. It is important that SPSO 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 includes a demonstration of the effect of changes in volumes for the demand driven services on the full-time equivalent (FTE) required and this represents good practice. The plan could be improved if it also set out the overall impact on costs of the anticipated increase in demand.

The Strategic Plan clearly links SPSO strategic objectives to national outcomes and clearly outlines how progress will be reported.

SPSO have 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.

The Strategic Plan sets out clearly the funding challenges which SPSO face with increased volume and additional responsibilities. SPSO have set out the different funding sources that they have available to them.

2019/20 Conclusion: SPSO has a strategic plan in place which highlights the effect changes in demand could have on resources. The Ombudsman 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.

Deloitte View – Financial sustainability

SPSO did not achieve financial balance in 2019/20 although the overspend was agreed with SPCB. SPSO have set a balanced budget for 2020/21; however, the impact of COVID-19 remains a significant risk which could impact on SPSO achieving short-term financial balance depending on the wider economic impact of the pandemic.

SPSO has a strategic plan in place which highlights the effect changes in demand could have on resources. The Ombudsman 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, we would highlight that this planning should be in place for all organisations.

Standards of conduct for prevention and detection of fraud and error

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

Deloitte view

SPSO 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 Ombudsman discharge her 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 Ombudsman and SPSO, 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 SPSO.

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 | 17 September 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 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 disclosure misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<p>Remuneration and Staff Report:</p> <ul style="list-style-type: none">• Advisory Audit Board (AAB) members' remuneration was initially disclosed however AAB members' are not remunerated by SPSO.• Median pay ratio should be calculated using the mid-point of the band of the highest paid director.• Staff costs and numbers were not split by permanent and other staff.• Trade Union Facility Time (TUFT) disclosure was initially not presented and subsequently not presented in the prescribed format.	<p>Disclosure of the required elements as per sections 5.3.20 to 5.3.28 of the FReM.</p> <p>TUFT -The Trade Union (Facility Time Publication Requirements) Regulations 2017.</p>	<p>Qualitatively material - Important for the users' understanding of the organisations remuneration and for ensuring compliance with laws and regulations.</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 SPSO 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 SPSO 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 SPSO 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 £18,110, as analysed below:

	£
Auditor remuneration	14,060
Audit Scotland fixed charges:	
Pooled costs	3,270
Audit support costs	780
Total fee	18,110

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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