

## **Scottish Legal Complaints Commission**

Report to the Audit Committee, the Board and the Auditor  
General for Scotland on the 2019/20 audit

Issued on 29 September 2020 for the meeting on 6 October 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 Legal Complaints Commission ('the Commission') for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the Audit Committee in April 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 Commission staff 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 work 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 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 £3,700 have been identified up to the date of this report. Three disclosure deficiencies have been identified up to the date of this report as detailed on page 27.

### **Conclusions on audit dimensions**

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 in each of the dimensions, 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 has achieved short-term financial balance in 2019/20 and has a balanced budget in place for 2020/21.

The Commission has improved the medium-term planning in place during the course of 2019/20 completing the four-year financial forecasts. The Commission should consider the next steps to close the identified funding gap.

Our detailed findings and conclusions are included on pages 20 to 21 of this report.

# Introduction (continued)

## The key messages in this report (continued)

### **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 24 of this report

### **Next steps**

An agreed Action Plan is included as an Appendix on page 28 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 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. 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. In addition, 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

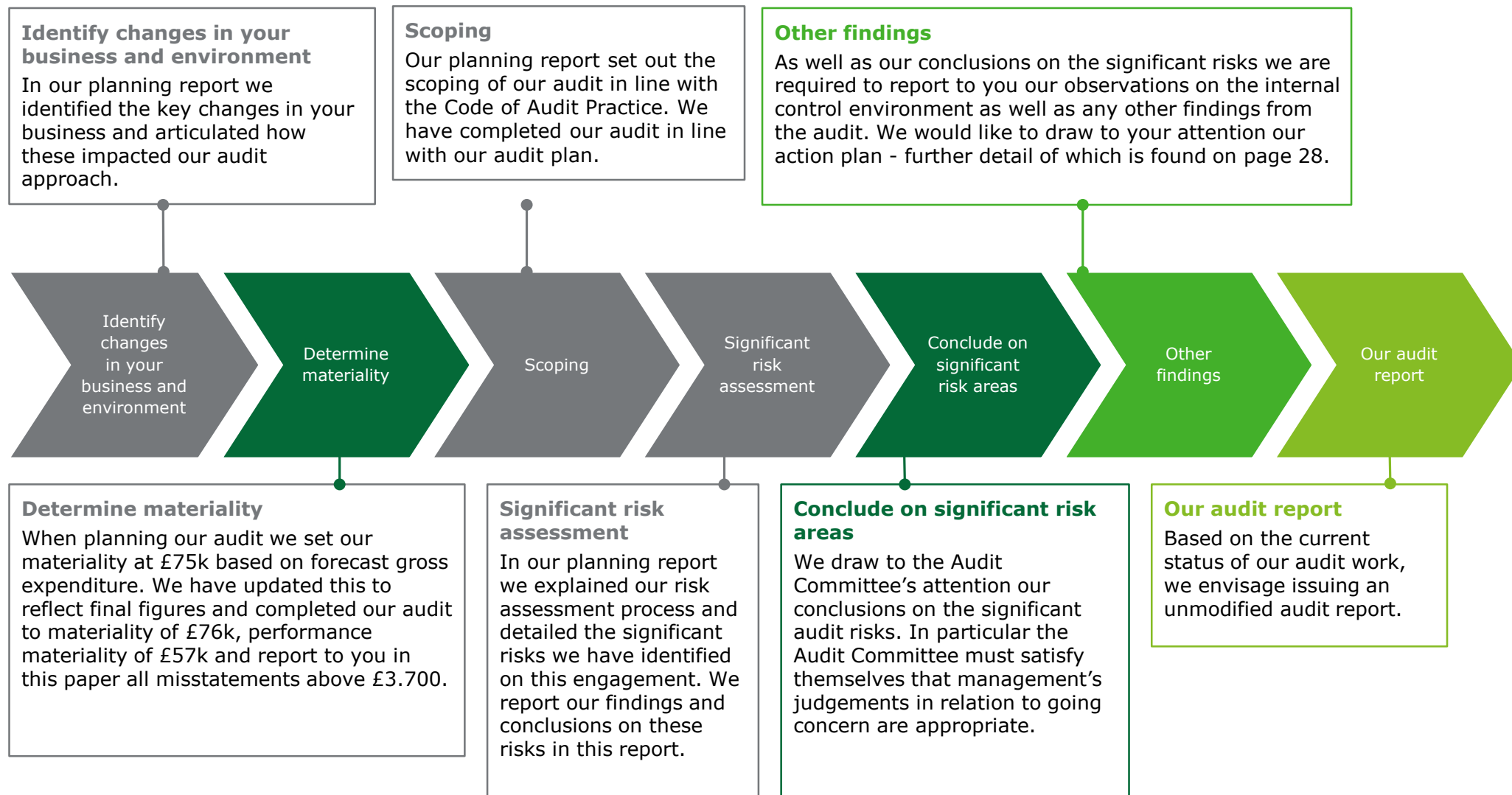
## Impact on the execution of our audit

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 key accounting judgements and estimates had been considered and appropriately documented prior to the commencement of the audit. We note that the dilapidations provision has not been subject to an external review and recommend that this is undertaken in 2020/21 as noted on page 28.
Adherence to deliverables timetable		Deliverables were provided on a timely basis and in some cases significantly earlier than the deadline.
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		The draft financial statement initially presented were of a good quality. We advised management of limited comments which required updating for compliance matters.
Response to control deficiencies identified		We have not identified any control deficiencies.
Volume and magnitude of identified errors		We have not identified any misstatements above our reporting threshold of £3,700. We have identified three disclosure deficiencies as detailed on page 27.







# 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.
Revenue recognition			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 – Revenue recognition

### Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. The components of operating income for the Commission are income from levies and bank interest income. The significant risk is pinpointed to the recognition of levy income. This being completeness and accuracy of income from levies from the Law Society of Scotland and Faculty of Advocates and complaints levy.



### Key judgements and our challenge of them

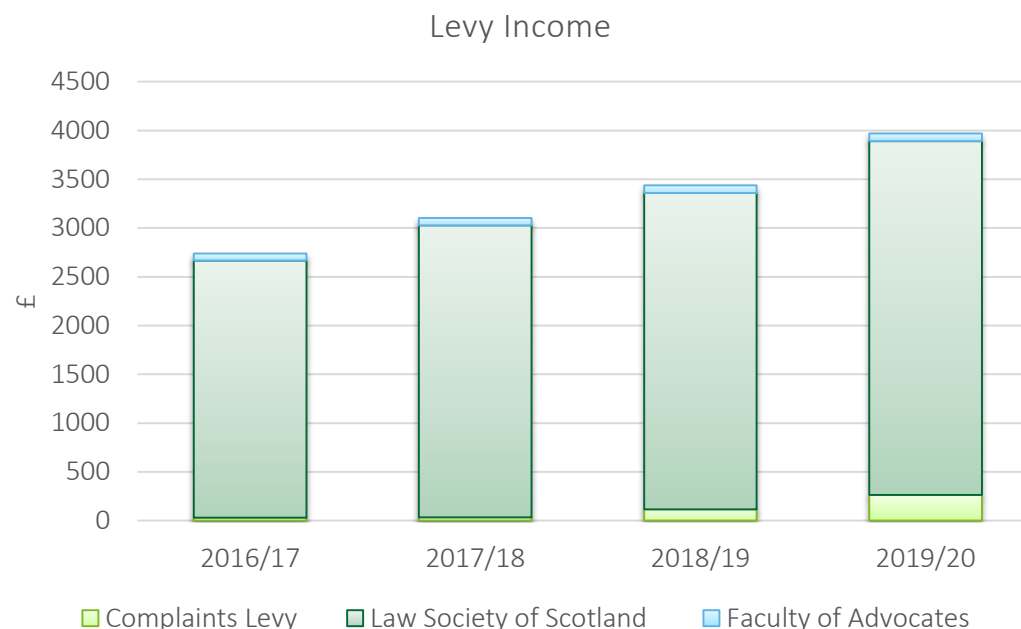
Our focus has been on the completeness, accuracy and cut-off of levy income generated in the year. We have also assessed the key controls around the recognition of levy income.



### Deloitte response

We have evaluated the results of our audit testing in the context of the completeness and accuracy of revenue recognition. Our work in this area included the following:

- Obtain an understanding of the design and implementation of the key controls in place in relation to recording operating income;
- Testing of levy income recorded during the year to confirm accuracy;
- Sample testing complaints levy income, tracing receipts of the ledger, to confirm completeness;
- Sample testing complaints levy income recorded during the year to confirm accuracy; and
- Cut-off procedures to test the accurate recognition of levy income at the year end.



### Deloitte view

We have concluded through our testing that the accuracy and completeness of levy income recorded in the year is in line with financial reporting requirements and is therefore satisfactory

# 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 SLCC' controls for specific transactions.



The key judgements in the financial statements includes 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. Our challenge is discussed on page 12.



### Deloitte response

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

- SLCC'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
- 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

Except for the pension cessation (discussed on page 13), we did not identify any significant transactions outside the normal course of business. There were no 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 have included a summary on page 12.

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 provisions), 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.

Although no misstatement was identified in the current year, we have included a recommendation in relation to the provision for dilapidations at page 28.

### 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.

# Significant risks (continued)

## Risk 2 - Management override of controls (continued)

**Key judgements** The key judgements in the financial statements are those which we have selected to be the significant audit risks around the 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.

As part of our work on this risk, we reviewed and challenge management’s key estimates and judgements including:

Estimate / judgement	Details of management’s position	Deloitte Challenge and conclusions
Accruals	Accruals relating to SLCC operating activities are estimated on the basis of existing contractual obligations and goods and services received during the financial year.	We have assessed this estimate through the performance of detailed testing, testing accruals by test of details as a lower risk, with further testing on potential unrecorded liabilities performed at lower risk level to assess the completeness of the estimate. Based on the procedures performed, we are satisfied that the estimate is reasonable.
Dilapidations Provision	SLCC provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. A dilapidations provision of £69k has been made in respect of lease for the head office.	<p>The dilapidations provision is immaterial and has had no movement in the year (as expected, as the lease is ongoing). The value was measured in 2017, with there being no significant change noted in respect of the lease which would require a remeasurement. We have confirmed this through our lease testing and through review of additions and disposals made in the current and prior year audits. We have performed analytical procedures on the dilapidations balance, adjusting for inflation as appropriate, with no issues noted.</p> <p>Given that there has been no change in the amount provided, that the amount provided was historically assessed by an independent surveyor, that there have been no changes to the lease or to properties for which dilapidations are required, and given that the amount provided is immaterial, we are satisfied that the provision is reasonable. However, we have raised a recommendation on this on page 28 to ensure this remains the case going forward.</p>
Legal Provision	SLCC provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. A legal provision of £45k has been made in respect of claims against SLCC.	The legal provision is immaterial quantitatively; however is qualitatively material therefore we have performed testing at higher risk level. We have obtained legal confirmations in relation to the cases provided for third party confirmation of the estimated liability.

# Other areas of focus

## Defined benefits pension scheme

### Background

The Commission participated the Lothian Pension Fund during 2019/20 which is a defined benefit pension scheme.

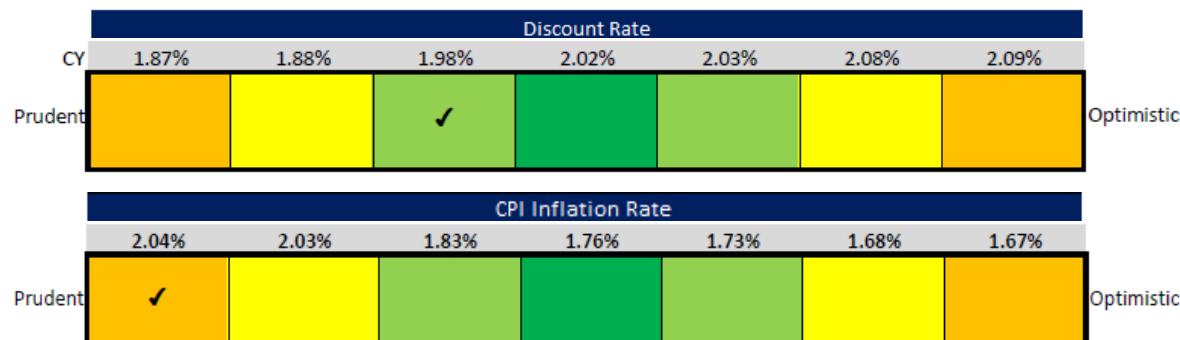
On 9 November 2019 the last active member left the scheme which triggered a cessation liability. The cessation valuation was completed at 30 November 2019. The cessation liability of £178k has been agreed with the pension fund with repayment over a two-year period.



### Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts;
- we reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown the table opposite;
- we assessed the reasonableness of the Commission's share of the total assets of the scheme with the Pension Fund financial statements;
- we have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities;
- we reviewed the disclosures within the accounts against the FReM; and
- we assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.

	SLCC	Benchmark	Comments
Discount rate (% p.a.)	2	2.02	Reasonable, slightly prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.1	1.76	Prudent
Salary increase (% p.a.) (over CPI inflation)	1.7	SLCC specific	Reasonable
Pension increase in deferment (% p.a.)	2.1	2.07	Reasonable, slightly prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.70	21.20	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	24.70	23	Reasonable



### Deloitte view

On the whole, the set of assumptions is reasonable and lies towards the prudent end of the reasonable range when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS 19. The accounting treatment and disclosure of the cessation liability within the annual report and accounts is in accordance with the accounting standard requirements of IAS 19.

# Coronavirus (Covid-19) outbreak

## Impact on the annual report and audit

The current crisis is unprecedented in recent times. The public sector is most 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 the reporting and audit processes, and present new issues and judgements that management and Audit Committees need 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 financial statements

The Commission needs to consider the impact of the outbreak on the annual report and financial statements including:

- Principal risk disclosures;
- Change in the funding regime for 20/21;
- Impairment of non-current assets;
- Allowance for expected credit losses;
- Fair value measurements based on unobservable inputs;
- Onerous contracts and any potential provisions;
- Going concern; and
- Events after the end of the reporting period.

### Impact on our audit

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

- Teams are primarily working remotely with some challenges in accessing 'physical' documentation.
- 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 the Commission, we will continue to consider any developments for potential impact up to the finalisation of our work in October 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 Commission accounts have been prepared in accordance with the FReM following updates made by management in relation to the lease commitment note.

### **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 including the impact of the delay to the receipt of 2020/21 levy income.

We will obtain written representations from the Commission 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.

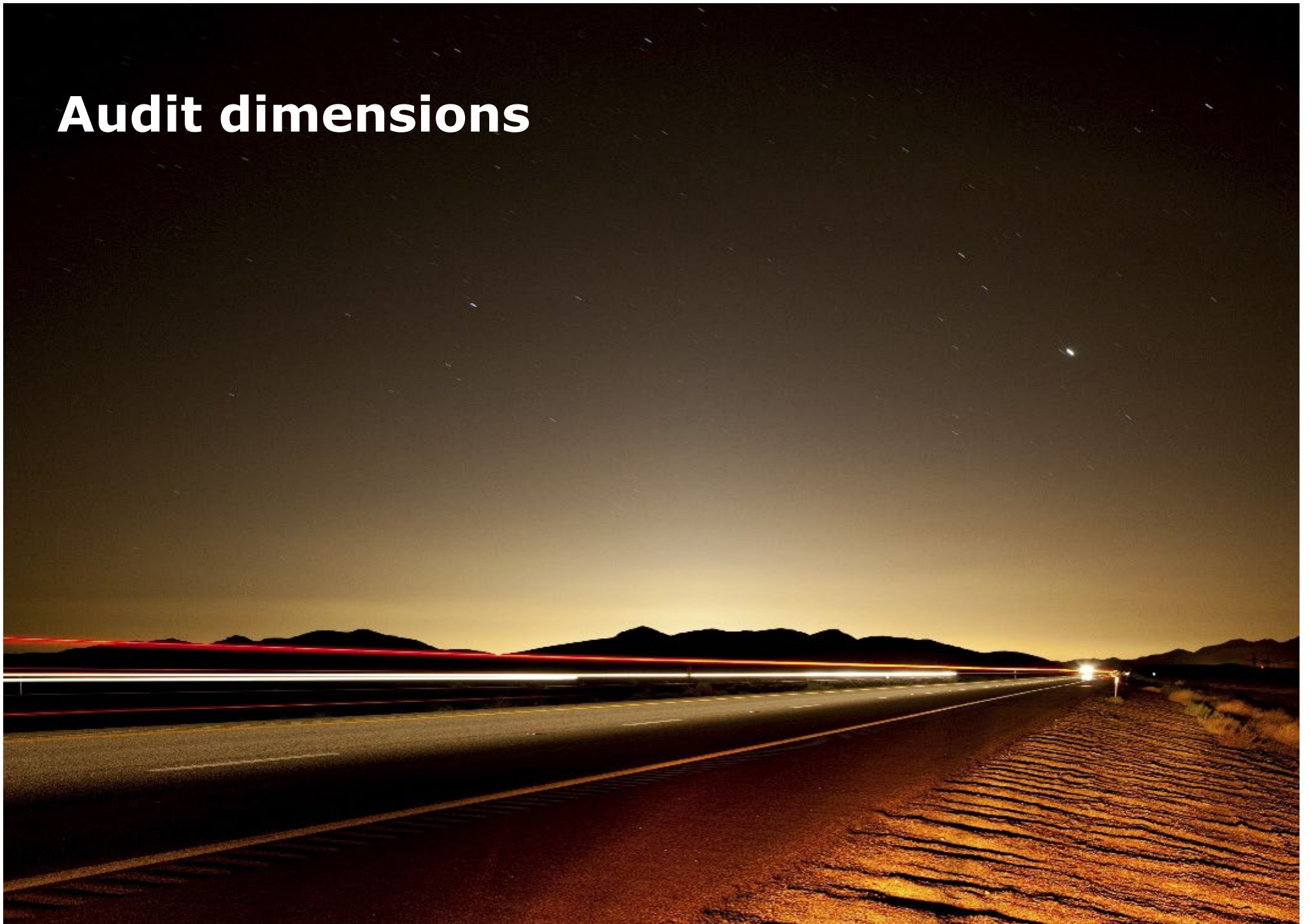
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 17.

# 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 is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the Commission's performance, both financial and non-financial. It also sets out the key risks and uncertainty for the Commission.	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have also audited the auditable parts of the remuneration and staff report and confirmed that it has been prepared in accordance with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	We have confirmed that £3,860k of levy income has been generated for 2020/21 and that a balanced budget is in place. Management have agreed that the levy for 2020/21 can be paid in two instalments by the Law Society of Scotland. Based on all procedures performed, we agree with management's assessment that it is appropriate for the Commission to prepare the financial statements on a going concern basis.

# Audit dimensions



# Audit dimensions

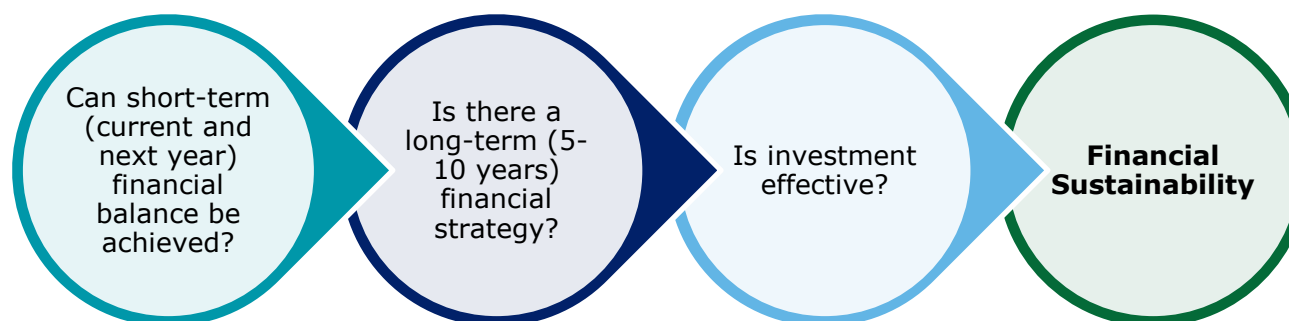
## Overview

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 17); 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 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 SPFM.
- The Commission’s long-term financial planning is inconsistent with the Scottish Government’s five-year plan.

# Audit dimensions (continued)

## Short-term financial balance

**2018/19 Conclusion:** The Commission has achieved short-term financial balance (excluding pensions actuarial movement) in 2018/19. A balanced budget has been set for 2019/20 and robust financial reporting procedures are in place.

**2019/20 Update:** The Commission approved a balanced budget for 2019/20. The outturn for 2019/20 was a surplus of £284k (excluding pension adjustments).

This has resulted in increasing the level of reserves to £659k. This represents two months of expenditure. We welcome the increase in the levels of reserves particularly given the current uncertainties in the public sector and the ongoing consultation regarding the regulation of the legal market. We note that the Commission's policy is to hold two-three months of reserves and efforts should continue to maintain and increase the level of reserves further.

Management have prepared a balanced budget of £3,993k for 2020/21, an increase of £195k compared with 2019/20. The increase relates mainly to increase in staff costs.

**2019/20 Conclusion:** The Commission has achieved short-term financial balance in 2019/20 and has a balanced budget in place for 2020/21.

## Medium-term financial planning

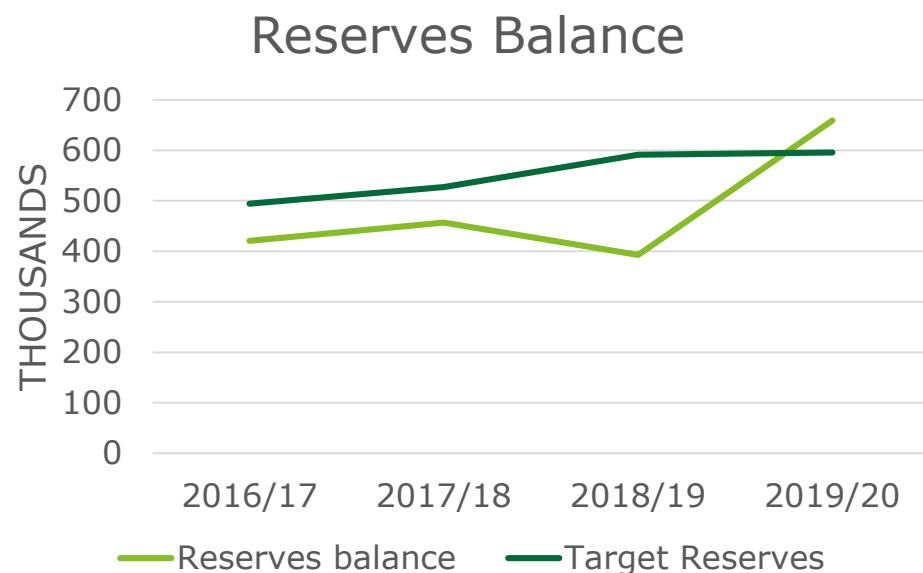
**2018/19 Conclusion:** In common with other similar bodies, the Commission's office only confirms its funding from the Law Society Scotland and the Faculty of Advocates for one year, therefore has not prepared a medium or long-term financial strategy. It does, however, have a four year Strategic Plan, which includes a high level assessment of the resources required and prepare indicative budgets for two years following the budget bid. It is important that the Commission's office consider the potential implications of the Scottish Government's Medium-Term Financial Strategy in setting future medium to longer-term plans.

**2019/20 Update:** A new strategic plan has been developed during 2019/20 for the period 2020-24. Management utilised the services of Internal Audit to ensure the plan complies with good practice guidance.

Management have considered the Scottish Government's Medium-Term financial strategy in developing the strategic plan.

As part of the strategic plan process management have developed forecasts up to and including 2024-25 which identified the funding gap over the period of £507k. Sensitivity analysis of the worst, best and mid range outcomes were undertaken for cash flow forecasts to end of 2022-23. We welcome the steps taken towards medium-term financial planning. Further work should be undertaken to develop plans to mitigate the funding gap identified. Management continues to engage with the Scottish Government on potential reform to the regulation of the legal market.

**2019/20 Conclusion:** The Commission has improved the medium-term planning in place during the course of 2019/20 completing the four year financial forecasts. Further should be done regarding specific savings plans to address the funding gap of £507k.



## Audit dimensions (continued)

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

As discussed on page 20 – the Commission has achieved short-term financial balance in 2019/20 and has a balanced budget in place for 2020/21.

The Commission has improved the medium-term planning in place during the course of 2019/20 completing the four-year financial forecasts. The Commission should consider the next steps to close the identified funding gap.

## 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**

SLCC 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 Audit Committee and the Board 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 | 29 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: 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 uncorrected 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 Report:</p> <p>One banding disclosed was incorrect as the amount used to calculate did not include expenses. Following recent guidance by Audit Scotland board members expenses should be included in the disclosure within the remuneration report.</p>	<p>FReM 5.3.21</p>	<p>Qualitative - Important for the users' understanding of payroll costs.</p>
<p>Hire Purchase Agreements:</p> <p>Following the purchase of assets through hire purchase agreements additional disclosures are required:</p> <ul style="list-style-type: none"><li>- Split of net book value between owned and leased assets.</li><li>- Interest payable is required to be shown as a separate line in the SoCNE and the statement of cash flows.</li><li>- Title of trade payables should be updated to trade and other payables now that the hire purchase creditor is included here.</li></ul>	<p>IAS 17</p>	<p>Qualitative - Important for the users' understanding of the lease agreements in place and the costs arising from them.</p>
<p>Lease Commitments:</p> <p>The lease commitment note should be updated to change the title to operating lease commitments to distinguish from the finance lease creditors disclosed elsewhere in the annual report and accounts.</p>	<p>IAS 17</p>	<p>Qualitative - Important for the users' understanding of the lease agreements in place and the costs arising from them.</p>

# Action plan

## Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>Dilapidations Provision</i>	Whilst we did not identify any errors in the current year relating to the dilapidations provision, we recommend that a dilapidations survey is undertaken by a qualified specialist. This should update the current valuation - this would be particularly useful given the recent office refurbishment works and the upcoming lease break in 2023.	We accept this recommendation and intend to complete this during 2020-21.	Director of Business Performance	31 March 2021	Medium
2	<i>Medium-term financial planning</i>	Management have completed financial forecasting for the period 2020-25 and identified the funding gap in place. We recommend that they consider the next steps on how the Commission can respond to close the funding gap (£507k) identified over that period.	We are continuing the work in this area with regular reporting to the Audit Committee and Board on progress.	Director of Business Performance	31 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 in relation to the wider scope areas and are pleased to note that all of the recommendations made have been fully implemented.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Sustainability	We recommend that the commissioner considers the implications of the Scottish Government's Medium-Term Financial Strategy for its own finances in any future medium to long-term plans.	As a first step, a three-year projection of income, costs and reserves was presented to the Board as part of the 19/20 financial planning cycle, and informed the public consultation in January 2019. The development of a new four-year strategy is currently underway, due for consultation in January 2020, and this recommendation will be further acted upon as part of that process, with four year projections and planning developed alongside the strategy.	Director of Business Performance	31/3/20	Medium	<p><i>Fully implemented:</i></p> <p>Management have considered the Scottish Government's medium-term financial strategy in setting their strategic plan for 2020-24.</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 or group.

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 income 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:

We have not identified any concerns from the work noted above and our audit procedures.



# 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 Commission 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 £12,580, as analysed below:

	£
Auditor remuneration	9,770
Audit Scotland fixed charges:	
Pooled costs	2,270
Audit support costs	540
<b>Total fee</b>	<b>12,580</b>

As a result of the pension cessation we have involved our pensions specialists and therefore we will propose an additional fee which will be agreed with management during the audit close down.

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 commission'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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