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Scottish Social Services Council

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Planning report to the Council on the 2022/23 audit
Issued on 15 March 2023 for the meeting on 27 March 2023

Contents

1. 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 planning report to the Scottish Social Services Council ("SSSC") for the 2022/23 audit. I would like to draw your attention to the key messages of this paper:

Audit plan

We have gained an understanding of SSSC following a handover from your previous auditors, discussion with management and review of relevant documentation from across the organisation.

Based on these procedures, we have developed this plan in collaboration with the organisation to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to SSSC.

Key risks

We have taken an initial view as to the significant audit risks SSSC faces. These are presented as a summary dashboard on page 12.

Wider scope requirements

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider-scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks.

In carrying out our risk assessment, we have considered the arrangements in place for each area, building on any findings and conclusions from the previous auditor, planning guidance from Audit Scotland and developments within the organisation during the year. Our wider scope significant risks are presented on pages 19 to 21. As part of this work, we will consider the arrangements in place to secure Best Value (BV).

1.1 Introduction (continued)

The key messages in this report (continued)

Regulatory change

IFRS 16, Leases, came into effect on 1 April 2022, therefore will be first implemented in financial year 2022/23. This will require adjustments to recognise on balance sheet arrangements currently treated as operating leases. Further details are provided on page 16.

Our commitment to quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Added value

Our aim is to add value to SSSC through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help SSSC promote improved standards of governance, better management and decision making and more effective use of resources.

We have also shared our recent research, informed perspectives and best practice from our work across the wider public sector on pages 31 to 36 of this plan.

Pat Kenny
Associate Partner

2. Responsibilities of the Audit and Assurance Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit and Assurance Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit and Assurance Committee has significantly expanded. We set out here a summary of the core areas of Audit and Assurance Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit and Assurance Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the Council, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems.
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns raised by staff in connection with improprieties.

3. Our audit explained

What we consider when we plan the audit

Responsibilities of management

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

FRC guidance on good practice

The FRC, in its Review of Governance Reporting, issued November 2021, has identified good practice as including a detailed description of the process for reviewing the effectiveness of risk management and internal control systems and clarity on what should be reported from the outcome of the review. This would include whether any weaknesses or inefficiencies were identified and explanations of what actions the Council has taken, or will take, to remedy these.

Responsibilities of the Audit and Assurance Committee

As explained further in the Responsibilities of the Audit and Assurance Committee slide on page 5, the Audit and Assurance Committee is responsible for:

- Reviewing internal financial controls and internal control and risk management systems (unless expressly addressed by a separate risk committee or by the Council itself).
- Monitoring and reviewing the effectiveness of the internal audit function; where there isn't one, explaining the absence, how internal assurance is achieved, and how this affects the work of external audit.
- Reporting in the annual report on the annual review of the effectiveness of risk management and internal control systems.
- Explaining what actions have been, or are being taken to remedy any significant failings or weaknesses.

Our response

As stakeholders tell us they wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. We will be placing increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

4. An audit tailored to you

Overview of our audit plan

Identify changes in your business and environment

SSSC continues to face staffing challenges with increased vacancies and long term absences across key posts in the organisation. This is considered further on pages 19 to 22.

Scoping

Our scope is in line with the Code of Audit Practice issued by Audit Scotland. More detail is given on page 10.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report.

Determine materiality

We will use a materiality level of £524,000 in planning our audit. This is based on forecast gross expenditure. We will report to you any misstatements above £26,000.

Further details on our materiality considerations are provided on page 9.

Significant risk assessment

We have identified significant audit risks in relation to SSSC. More detail is given on pages 12 to 15.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of SSSC. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

5. Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously, and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.

Planning	Interim and wider scope	Year end fieldwork	Reporting
• Introduction and Planning meetings • Handover from previous auditors • Discussion of the scope of the audit • Discussion of audit fees • Discussion of fraud risk assessment • Discussion of the scope of the audit	• Understanding of key business cycles • Carry out detailed risk assessments • Review of Council and Audit and Assurance Committee papers and minutes • Review of the work performed by Internal Audit • Complete wider scope procedures	• Audit of Annual Report and Accounts, including Annual Governance Statement • Year-end audit field work • Year-end closing meetings	• Reporting of significant control deficiencies • Final Audit and Assurance Committee and Council • Submission of final Annual Audit Report to the Council and the Auditor General for Scotland. • Submission of audited Annual Report and Accounts to Audit Scotland
2022/23 Audit Plan	2022/23 Annual Audit Report		
February – March 2023	March – April 2023	July 2023	September 2023

Ongoing communication and feedback

6. Materiality

Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined materiality as £524,000 and performance materiality of £366,000, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the Annual Report and Accounts.
- We have used 2% of forecast gross expenditure as the benchmark for determining materiality and applied 70% as performance materiality. We have judged expenditure to be the most relevant measure for the users of the accounts.

Reporting to those charged with governance

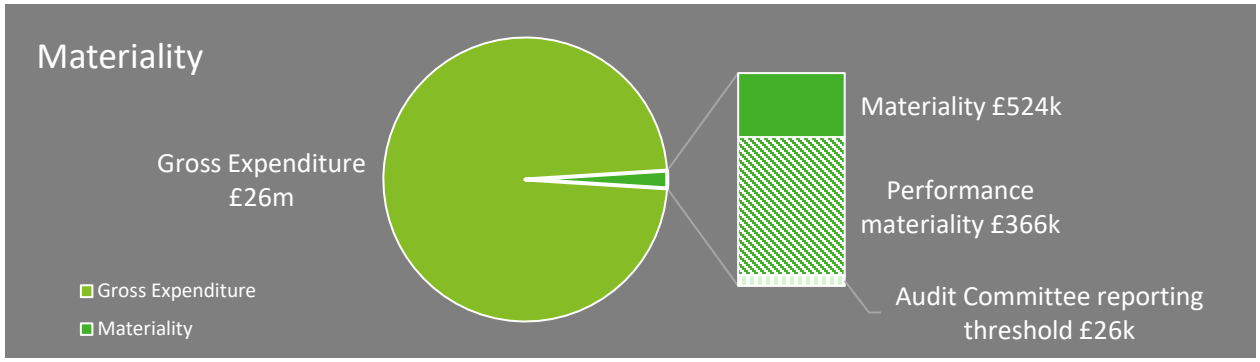
- We will report to you all misstatements found in excess of £26,000.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance, which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to the Audit and Assurance Committee must not exceed £250,000.

Our Annual Audit Report

We will:

- Provide comparative data and explain any changes compared to prior year;
- Explain any normalised or adjusted benchmarks we use;
- Explain the concept of performance materiality and state what percentage of materiality we used for the audit, with our rationale.



Although materiality is the judgement of the audit partner, the Audit and Assurance Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

7.1 Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Auditors activity	Planned output	Proposed reporting timeline to the Council/ Committee	Audit Scotland/ statutory deadline
Audit of Annual Report and Accounts	Annual Audit Plan Independent Auditor's Report Annual Audit Report	27 March 2023 [1] 26 September 2023 [2] 26 September 2023 [2]	31 March 2023 31 October 2023 31 October 2023
Wider-scope areas	Annual Audit Plan Annual Audit Report	27 March 2023 [1] 26 September 2023 [2]	31 March 2023 31 October 2023
Consider and report on Best Value arrangements	Annual Audit Plan Annual Audit Report	27 March 2023 [1] 26 September 2023 [2]	31 March 2023 31 October 2023

[1] Annual Audit Plan reported to the Council

[2] Following recommendation by the Audit and Risk Committee, the Annual Audit Report and Annual Report and Accounts will be approved by the Council on 31 October

7.2 Scope of work and approach

Our approach

Liaison with internal audit and local counter fraud

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work where necessary. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the SSSC staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We use and continually update International Financial Reporting Standards ("IFRS") disclosure checklists in conjunction with the requirements of the FReM to support SSSC in preparing high quality drafts of the Annual Report and Accounts, which we would recommend the Council complete during drafting.

Other reporting prescribed by the Auditor General

In addition to the opinion on the financial statements, we are also required to provide an opinion on the following:

- The regularity of expenditure and income;
- Whether the audited part of the Remuneration and Staff Report has been properly prepared; and
- Whether the Performance Report and Annual Governance Statement are consistent with the financial statements and have been properly prepared.

8.1 Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Page no.
Risk 1 – Management override of controls	✓	DI	⚠	✗	13
Risk 2 – Operating within expenditure resource limits	✓	DI	⚠	✓	14
Risk 3 – Completeness of fee income	✓	DI	⚠	✓	15

Level of management judgement

⚠ Limited management judgement

⚠ A degree of management judgement

⚠ Significant management judgement

Controls approach adopted

DI Assess design & implementation

8.2 Significant risks

Risk 1 – Management override of controls

Risk identified	In accordance with ISA (UK) 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the Annual Report and Accounts as well as the potential to override the Council's controls for specific transactions. The key judgements in the Annual Report and Accounts are those which we have selected to be the significant audit risks – revenue recognition and operating within the expenditure resource limits. These are inherently the areas in which management has the potential to use their judgment to influence the Annual Report and Accounts.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: • We will consider the overall control environment and 'tone at the top'; • We will test the design and implementation of controls relating to journals ad accounting estimates; • We will make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; • We will test the appropriateness of journals and adjustments made in the preparation of the Annual Report and Accounts . We will use Spotlight data analytics tools to select journals for testing, based upon identification of items of potential audit interest; • We will review accounting estimates for biases that could result in material misstatements due to fraud and perform testing on key accounting estimates as discussed above; • We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

8.3 Significant risks (continued)

Risk 2 – Operating within the expenditure resource limits

Risk identified	In accordance with Practice Note 10 (Audit of Annual Accounts of public sector bodies in the United Kingdom), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition. We consider this fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. The risk is that SSSC could materially misstate 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 the completeness of accruals and the 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. 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.
Our response	We will evaluate the results of our audit testing in the context of the achievement of the limits set by the Scottish Government. Our work in this area will include the following: • Evaluating the design and implementation of controls around monthly monitoring of financial performance and the estimated accruals and prepayments made at the year-end; • Obtain independent confirmation of the resource limits allocated to SSSC by the Scottish Government; • Perform focused testing of a sample of accruals and prepayments made at the year end; and • Performing focused cut-off testing of a sample of invoices received and paid around the year end.

8.4 Significant risks (continued)

Risk 3 – Completeness of fee income

Risk identified	ISA (UK) 240 states that when identifying and assessing the risks of material misstatements 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 risk to such risks. We have assessed the income streams for SSSC and concluded that the risk of a material misstatement due to fraud in relation to the Grant-in-Aid funding is limited given the funding can be agreed to confirmations supplied. We have therefore pinpointed our significant risk to the registration fee income, being fees charged to social service workers (£5.9m in 2021/22). As a result of the agreement as part of the Scottish Local Government pay settlement for 2022/23 which confirmed that local government employed staff would no longer be required to pay SSSC registration fees, the fees recognised are expected to be lower at around £1.1m, with the lost income being made provided by the Scottish Government. In particular, given future year financial pressures and a projected underspend position in the current year, we have pinpointed the risk to completeness as management may be incentivised to allocate revenue to future years.
Our response	We will test the design and implementation of key controls in place around the recognition of fee income. We will focus our testing on the year-end cut off arrangements, testing the occurrence of fee income recognised at the year-end and the existence of receivables at the year-end.

9.1 Other areas of audit focus

We have identified the below areas of audit interest, although do not consider these to be significant risks

Risk identified	**IFRS 16**
Summary	IFRS 16 is effective from 1 April 2022 and the introduction of IFRS 16 will have a significant impact on the balance sheet and on recorded capital expenditure for SSSC. The impact of the implementation of IFRS 16 was disclosed in the 2021/22 Annual Report and Accounts and audited during the prior year audit with no issues noted. The SSSC has leases relating to office space, and the share of future minimum lease payments, of £0.851m was disclosed in the 2021/22 Annual Report and Accounts. IFRS 16 disclosures will need to be updated to capture any new leases entered into this year. We recommend that an accounting paper is presented to the Audit and Assurance Committee on the transition for review and approval as part of the Council's governance over financial reporting.
Deloitte response	We will request from management an accounting paper on the implementation of IFRS 16 (including the controls in place over reporting under the standard, and any additional judgements identified in transition and in-year application). During our final audit we will perform testing of SSSC's IFRS 16 disclosures, including any new judgements.

9.2 Other areas of audit focus (continued)

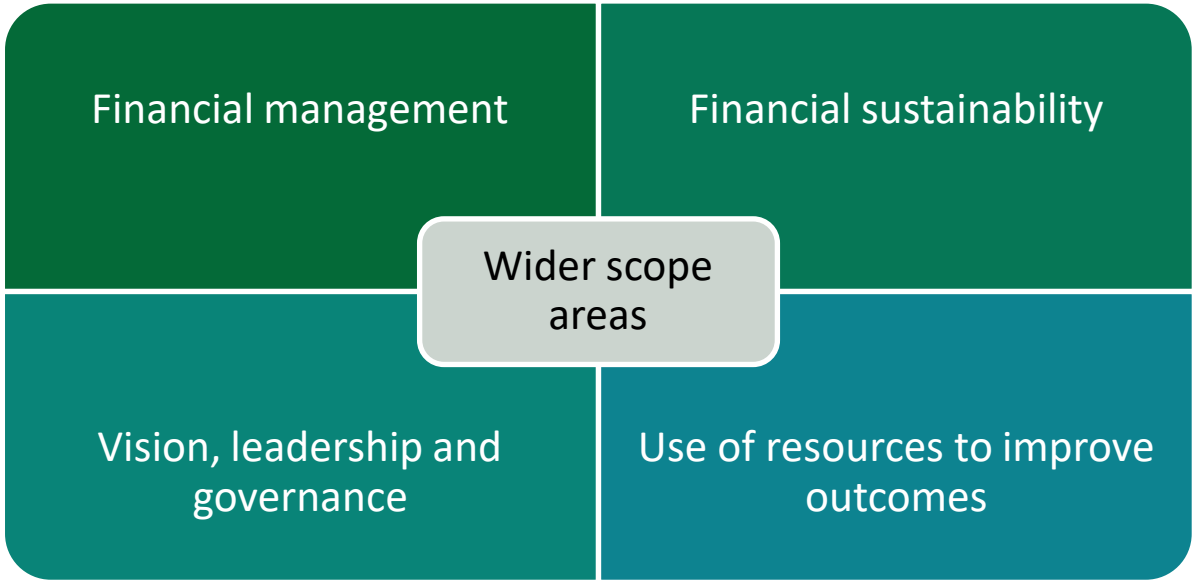
We have identified the below areas of audit interest, although do not consider these to be significant risks (continued)

Risk identified	**Pension Liability**
Summary	SSSC participates in the Tayside Superannuation Fund, administered by Dundee City Council, which is a defined benefit scheme. The net pension liability decreased from £11.6m in 2020/21 to £9.7m in 2021/22. The decrease was combination of a decrease in the fair value of the assets and an increase in the liabilities as a result of demographic changes and financial assumptions. The liability also continues to be affected by the McCloud and Goodwin legal cases. Barnett Waddington are SSSC's appointed actuary, who produce a detailed report outlining the estimated liability at the year-end along with the associated disclosure requirements. The pension liability valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability. The valuations are prepared by a reputable actuary using standard methodologies and no significant changes in the membership of the scheme or accrued benefits are expected in the current year. As a result, we have not identified this as a significant risk.
Deloitte response	We will perform the following procedures to address the risk: • Assess the independence and expertise of the actuary supporting the basis of reliance upon their work; • Review and challenge the assumptions made by Barnett Waddington • Obtain assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary; • Assess the reasonableness of SSSC's share of the total assets of the scheme with the Pension Fund annual accounts; • Review and challenge the calculation of the impact of the McCloud and Goodwin cases on pension liabilities; and • Review the disclosures within the accounts against the FReM.

10.1 Wider scope requirements

Overview

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider-scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. As part of our wider scope audit work, we will consider whether there are organisational arrangements in place in this regard.

As part of our risk assessment, we have considered the arrangements in place for the wider-scope areas and have summarised the significant risks and our planned response on the following pages.

10.2 Wider scope requirements (continued)

Significant risks

Area	Significant risks identified	Planned audit response
Financial management	During 2022/23, there has been a significant turnover of finance staff, with 60% vacancies reported to the Audit and Assurance Committee in February 2023. While most vacancies have now been filled, capacity issues remain until training and development is completed for the new staff. In addition, the Interim Director of Finance is due to leave at the end of March 2023. There is therefore a significant risk that financial controls are not fully implemented and that financial reporting to the Committee and Council is out of date.	As part of our assessment of the business processes in place within the finance team, we will consider the impact of staff vacancies on the controls in place during the year. We will also review and assess the financial monitoring reports considered by the Committee and Council throughout the year. Our review of all internal audit plans and reports will also inform our work in this area.
Financial sustainability	SSSC has recently approved a Medium Term Financial Strategy (MTFS) covering the period 2023-26 and its draft budget for 2023/24 identifies significant budget gaps over the next 3 years. As with all public sector bodies, it is becoming increasingly challenging to balance the income expected with the increasing expenditure, particularly in view of pay costs and inflationary pressures. There is therefore a significant risk that SSSC do not have sufficient plans in place to manage its finances sustainably and deliver services effectively, over the medium to longer term.	We will assess the development of the 2023/24 budget and how that links to the MTFS and the Strategic Plan. In particular, we will consider the work being done to address in future year budget gaps.

10.3 Wider scope requirements (continued)

Significant risks (continued)

Area	Significant risks identified	Planned audit response
Vision, leadership and governance	The prior year auditors concluded that the governance arrangements continued to operate effectively during the year and found effective scrutiny and challenge, with no significant concerns noted. From our planning work, we have not identified any significant risks in relation to vision, leadership and governance.	We will continue to review the work of the Council and its Committees, in particular through attendance at the Audit and Assurance Committee, to assess whether the arrangements are continuing to work effectively.
Use of resources to improve outcomes	The Council recently approved its updated Strategic Plan for 2023-2026. The delivery of the plan relies on an increase in Grant-in-Aid allocation which has not been confirmed. There is a risk that should this additional funding not be received, SSSC is unable to deliver on all of its objectives. The Plan also recognises significant uncertainties around the National Care Service and Independent Review of Inspection, Scrutiny and Regulation and how that will impact SSSC.	Linked to the financial sustainability work, we will assess how the Medium Term Financial Plan (MTFP) is linked to the Strategic Plan and how the SSSC is reporting against this to demonstrate how it is using resources to improve outcomes. We will also assess how the SSSC is managing the risks in relation to the uncertainties.

10.4 Wider scope requirements (continued)

National risks

In its planning guidance, Audit Scotland has highlighted the following national or sectoral risks that the Audit General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audit.

Area	Risk	Audit response
Climate change	Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impact of climate change.	Public audit has an important and clear role to play in: • Helping drive change and improvement in this uncertain and evolving area of work; • Supporting public accountability and scrutinising performance; • Helping identify and share good practice The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For the 2022/23 audit, we are required to provide responses to a series of questions supplied by Audit Scotland to gather basic information on the arrangements for responding to climate change in each body.
Cyber security	There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber-security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operations of an organisation.	As discussed further on page 27, the revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. The Auditor General and Accounts Commission has confirmed that these additional requirements is likely to be sufficient consideration of cyber security in 2022/23 and therefore there is no additional work specified by Audit Scotland.

10.5 Wider scope requirements (continued)

Other requirements (continued)

Area	Requirements
National Fraud Initiative	The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. A number of central government bodies, including SSSC are participating in the 2022/23 NFI exercise. Participating bodies should have received matches for investigation from January 2023 and these require to be investigated by 30 September 2023. We will monitor the bodies participation and progress during 2022/23 and, where appropriate, include reference to NFI in our Annual Audit Report.
Anti-money laundering	We are required to ensure that arrangements are in place to be informed of any suspected instances of money laundering at audited bodies. Any such instances will be advised to Audit Scotland.
Fraud returns	We are required to prepare and submit fraud returns to Audit Scotland for all frauds at audited bodies: • Involving the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control • Over £5,000.

11.1 Reporting hot topics

Ongoing macro-economic uncertainty

Reporting in times of uncertainty

Businesses face unprecedented uncertainty from a variety of sources, including stresses arising from energy supply and costs, inflation, foreign exchange volatility, commodity availability and pricing, global supply chain disruption, labour shortages and the impacts of climate change. Many of these issues are exacerbated by the ongoing conflict between Russia and Ukraine.

High-quality, transparent reporting that clearly explains the impact of these uncertainties on SSSC's financial position, performance and cash flows, as well as SSSC's response to these risks, remains as important as ever.

Impact of ongoing macro-economic uncertainty – Considerations

The current macro-economic uncertainty and the resulting challenges have a pervasive impact on the financial statements and need to be considered comprehensively across all account balances and disclosures, in particular those involving estimation or judgement.

Sources of uncertainty likely to impact SSSC's operations and corporate reporting include:

- **High energy costs and risk of energy shortages**
- **Rising interest rates**
- **Rising levels of inflation**
- **Supply chain disruptions**
- **Continued pressures on labour supply and wages**

Impact of ongoing macro-economic uncertainty – Action

We expect all bodies to have undertaken a comprehensive, evidence-based assessment of the risks relating to macroeconomic conditions including for example, higher energy costs, supply chain disruption, rising levels of inflation, commodity availability and labour shortages. Consideration should be given to how those risks affect both the operations of SSSC and the impact on the annual report and financial statements as a whole.

We expect bodies to have considered the pressures throughout the value chain(s) in which they operate, including an assessment of the risks relating to suppliers and operations.

11.2 Reporting hot topics (continued)

Climate related risks

Deloitte view
The expectations of corporate reporting are increasing. While the focus is primarily on corporates, we highlight these areas where improved disclosures would help meet stakeholder expectations. This is also an area of interest from the Auditor General and Accounts Commission as discussed on page 21.

Accounting for and reporting of climate-related risks – Considerations

Stakeholder expectations

Stakeholders are clear that climate-related risks could be material to businesses in all sectors. In particular, stakeholders ask for clear, specific and quantified information that describes:

- how the impacts of physical and transition risks have been considered in preparing the financial statements;
- what climate-related assumptions and estimates were used to prepare the financial statements; and
- whether narrative reporting on climate risks and the accounting assumptions are consistent, or an explanation for any divergence.

Climate thematic reports

In July 2022, the FCA and FRC published **thematic reviews of TCFD disclosures and climate-related impacts** reported in premium listed entities' financial statements. This follows up on the FRC's 2020 thematic review of climate-related considerations.

The FRC highlighted five broad areas for improvements in climate-change reporting in their thematic review:

- giving more **granular and company specific information** about the effects of climate change on different businesses, sectors and geographies;
- ensuring that the discussion of climate-related risks and opportunities is **balanced**;
- **linking climate-related disclosures**, such as the output of climate-related scenario analysis, with other relevant narrative disclosures in the annual report, such as the business model or strategy;
- explaining how **materiality** has been applied in deciding which climate-related information should be disclosed; and
- ensuring **connectivity between TCFD disclosures and the financial statements** to help investors understand the relationship between climate-related matters and judgements and estimates applied in the financial statements – for example, explaining clearly how different climate-related scenarios and the companies' own net zero commitments have been reflected in the financial statements.

The FRC report also includes disclosure examples and detailed expectations and can be found on the FRC's website here.

11.3 Reporting hot topics (continued)

Climate related risks

Accounting for and reporting of climate-related risks - Action

Governance

The impacts of climate change are a strategic issue that should be on the Council agenda and integrated into decision making. We expect entities to have:

- Reviewed their governance, processes and controls for identifying, and responding to, climate-related issues;
- Completed a robust climate assessment including all physical and transition risks;
- Assessed the climate change assumptions used in judgements and estimates in the financial statements;
- Evaluated the appropriateness and consistency of information in the financial statements and narrative disclosures; and
- Prepared a management paper setting out management's climate risk assessment and consideration of the impacts of climate change on the financial statements.

Financial statements

Regarding financial statement disclosures, we expect entities to consider the transparency of information about the climate-related judgements and assumptions. Information should be entity-specific and avoid boilerplate explanations.

The financial statements should clearly disclose:

- What climate-related assumptions have been used in preparing the financial statements;
- How significant climate risks or net zero transition targets have been taken into account in preparing the financial statements;
- Which climate-related scenarios have been considered in sensitivity analysis of climate-related assumptions and how they affect judgements and estimates in the financial statements.

Narrative reporting

We expect the narrative accompanying the financial statements to include the following:

- An explanation of how climate is assessed as a strategic issue.
- Clarity of whether climate change represents a principal or emerging risk and how it is being managed;
- For climate-related targets and metrics, an explanation of how those targets and metrics fit into strategic targets/approach;

11.4 Reporting hot topics (continued)

Cyber risk

Area	Management actions	Impact on the financial statements and annual report	Impact on our audit
Cyber risk	SSSC has undertaken a cyber risk assessment, and provides cyber risk updates to the Audit and Assurance Committee.	Cyber risk is an increasing area of focus, including a focus for the Auditor General and Accounts Commission as discussed on page 21. We recommend considering whether any additional disclosure or explanations are appropriate, including discussion of principal risks and uncertainties, or in the Annual Governance Statement. The AGS requires disclosure of how risks to data security are managed and controlled, as well as of any serious information governance incidents.	We will obtain an understanding of SSSC and its internal controls in relation to cyber as part of our understanding of the SSSC's IT environment. We will make specific enquiries to identify whether a cyber breach has occurred during the period, and evaluate the impact of any cyber incidents, including any potential liabilities arising or impacts on compliance with laws or regulation. We will review the disclosures made for consistency with our understanding from our audit work.

12.1 Audit quality

Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

We will apply professional scepticism on material issues and significant judgements by using our expertise in the sector and elsewhere to provide robust challenge to management.

We will obtain a deep understanding of your business, its environment and of your processes in income and expenditure recognition, payroll expenditure enabling us to develop a risk-focused approach tailored to SSSC.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve pension specialists to support the audit team in our work on the pension liability.

In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills, delivered by Pat Kenny (Associate Partner).

Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach.

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

12.2 Audit quality (continued)

FRC Audit Quality Inspection and Supervision report

We are proud of our people's commitment to delivering high quality audits and we continue to have an uncompromising focus on audit quality. Audit quality is and will remain our number one priority and is the foundation of our recruitment, learning and development, promotion and reward structures.

In July 2022 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2021/22 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, we are pleased that both the overall and FTSE 350 inspection results for our audits selected by the FRC as part of the 2021/22 inspection cycle show an improvement. 82% of all inspections in the current cycle were assessed as good or needing limited improvement, compared to 79% last year. Of the FTSE 350 audits reviewed, 91% achieved this standard (2020/21: 73%). This reflects our ongoing focus on audit quality, and we will maintain our emphasis on continuous improvement as we seek to further enhance quality.

We welcome the breadth and depth of good practice points identified by the FRC particularly those in respect of the effective challenge of management and group audit oversight, where the FRC also reports findings.

We are also pleased that previous recurring findings relating to goodwill impairment and revenue were not identified as a key finding in the current FRC inspection cycle, reflecting the positive impact of actions taken in previous years. We nevertheless remain committed to sustained focus and investment in these areas and more broadly to achieve consistently high quality audits.

All the AQR public reports are available on its website: https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

The AQR's 2021/22 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had made progress on actions to address our previous findings and made improvements in relation to its audit execution and firm-wide procedures. The firm has continued to show improvement, with an increase in the number of audits we assessed as requiring no more than limited improvements to 82% compared with 79% in the previous year and 80% on average over the past five years. It is also encouraging that none of the audits we inspected were found to require significant improvements.

The area which contributed most to the audits requiring improvement was the audit of estimates of certain provisions. There were also key findings in relation to group audits, the review and challenge by the Engagement Quality Control Review (EQCR) partner and the application of the FRC Ethical Standard."

13. 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 establish our respective responsibilities in relation to the Annual Report and Accounts audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

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

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, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Use of this report

This report has been prepared for the SSSC, 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

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

Deloitte LLP

Glasgow | 15 March 2023

Technical and sector developments

14.1 Revisions to auditing standards coming into effect

ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement

The International Auditing and Assurance Standards Board (IAASB) issued a revised risk assessment standard in December 2019, that takes effect for periods commencing on or after 15 December 2021. For most Scottish public sector bodies, this will be March 2023 year ends and later. The FRC has adopted the standard in the UK with minimal additions.

The revision was made to respond to challenges and issues with the current standard and requires a more robust risk identification and assessment. We had already incorporated many of the changes into our methodology in advance of the standard being introduced, but we summarise on the next few slides some of the areas where this may impact our audit.

"The IAASB recognizes the importance, and also the complexity, of the auditor's risk assessment process"

IAASB's basis for conclusions, ISA 315

Area of change	Impact on our audit	Impact on the entity
New requirement to evaluate the 4 entity-level components of internal control	Whilst we have always been required to gain an understanding of the entity and its environment, including its internal controls, the new standard is more prescriptive on the need to go further and evaluate the 4 entity level controls components: the entity's control environment, risk assessment process, monitoring of internal control, and information system. This could lead to an increase in the number of relevant controls.	You will need to consider the adequacy of your entity-level controls, and documentation thereof. You should also expect more granular inquiries regarding the control environment.
Enhanced consideration of the types of relevant controls	Overall we expect to identify an increased number of relevant controls, particularly for controls designed to address risks at the higher end of the spectrum of inherent risk and controls over reconciliations. Where new relevant controls are identified, we may also identify control deficiencies and need to consider the effect of these.	You should expect more challenge of controls, particularly over complex accounting estimates, financial reporting and complex or highly automated business processes.

14.2 Revisions to auditing standards coming into effect (continued)

ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement (continued)

Area of change	Impact on our audit	Impact on the entity
Enhanced understanding of IT and General IT controls	As we identify more relevant controls, it is likely there will be more relevant IT controls (e.g. automated controls) which themselves rely on underlying General IT Controls (GITCs). We may need more IT specialist involvement to gain an enhanced understanding of IT controls and GITCs, particularly where there are a high volume of automated transactions in the entity. Similarly, where new IT systems come into scope, the likelihood is that there will be an increase in the number of deficiencies identified and action will be needed to determine the appropriate response.	You should expect more challenge over the effectiveness of your GITCs, including how these are monitored.
New approach to scoping account balances, classes of transactions and disclosures	We may now identify some account balances as "material but not significant" where we do not identify a risk of material misstatement, but where we are required to perform some substantive testing.	We may need to perform more substantive testing on balances, where previously there was no separate category of material but not significant.
Revised definition of a significant risk, focused on risks at the upper end of a spectrum of inherent risk	We do not anticipate there being a significant increase in the number of significant risks identified, but where there are more material judgements or estimates being made and a significant risk has not been identified previously, we may conclude there is a significant risk.	You should expect more challenge on audits where before there were no significant risks beyond management override of controls.
Stand back requirement and increased focus on professional scepticism	Our audit approach already acknowledges that risk assessment is an iterative process as well as emphasising the importance of professional scepticism. We will use this as an opportunity to challenge ourselves on the evidence that professional scepticism has been applied through the risk assessment processes, including as part of the stand back assessment.	You should expect more challenge of the evidence provided in respect of our risk assessment, including revisiting this towards the concluding stage of the audit.

14.3 Revisions to auditing standards coming into effect (continued)

ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

The Financial Reporting Council (FRC) issued a revised fraud standard in May 2021, that takes effect for periods commencing on or after 15 December 2021 (i.e. March 2023 year ends for most Scottish public sector bodies).

Many of the revisions provide increased clarity as to the auditor's obligations and codify existing expectations or best practice. The updates to the ISA do not include any changes relating to proposals in the Government's White Paper regarding auditor reporting on a statement by directors on the steps they have taken to prevent and detect material fraud.

We summarise on the next few slides how this will impact our audit.

Area of change	Impact on our audit	Impact on the entity
Fraud inquiries	In addition to the pre-existing required enquiries, we are now explicitly required to make inquiries of management or others at the entity who handle whistleblowing. We are also required to discuss the risks of fraud with those charged with the governance, including those risks specific to the entity's business sector.	You should expect further challenge in relation to who we speak to in relation to fraud at the entity, including more focus on entity/sector specific risks.
Engagement team discussions	The revised ISA (UK) emphasises that the pre-existing audit team fraud discussion should explicitly include an exchange of ideas about fraud, incentives to commit fraud, and how management could perpetrate and conceal fraud. There is also an explicit requirement for the engagement partner to consider whether further fraud discussions should be held at later stages of the audit.	You should expect increased challenge of the controls and processes in relation to the entity's own fraud risk assessment and the documentation of that assessment.

14.4 Revisions to auditing standards coming into effect (continued)

ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Area of change	Impact on our audit	Impact on the entity
Identified or suspected fraud by a key member of management	The revised ISA (UK) clarifies that if we identify or suspect fraud by a key member of management this may be qualitatively material.	Further challenge in relation to identified or suspected fraud by a key member of management.
Involvement of specialists	We are explicitly required to determine whether the engagement team needs specialised skills and knowledge: • To perform the fraud risk assessment procedures, to identify and assess the risk of material misstatement due to fraud, to design and perform audit procedures to respond to those risks or to evaluate the audit evidence obtained; or • Where a misstatement due to fraud or suspected fraud is identified.	There is likely to be more interaction with fraud specialists as part of our planning procedures.
Journal entry testing	We were already required to test the appropriateness of journal entries and other adjustments made in the preparation of the financial statements and make inquiries of personnel. The revised ISA (UK) clarifies that our selection process should consider specifically both automated and manual journals, consolidation adjustments (in the preparation of group financial statements), and post-closing entries. The standard also emphasises that when making inquiries about inappropriate or unusual activity relating to the processing of journal entries and other adjustments, we should make inquiries of individuals with different levels of responsibility in the financial reporting process.	You should expect more challenge on GITCs over the identification and classification of automated and manual controls, especially where there are IT deficiencies. There will also be more inquiries with people at different levels of responsibility at the entity.

14.5 Revisions to auditing standards coming into effect (continued)

ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Area of change	Impact on our audit	Impact on the entity
Representations from those charged with governance	We will request additional representations from those charged with governance regarding their responsibilities for the prevention and detection of fraud.	You should expect updated representations from those charged with governance that they believe they have appropriately fulfilled their responsibilities to design, implement and maintain internal control to prevent and detect fraud.

15.1 Sector developments

The State of the State report 2022/23 – From the pandemic to a cost of living crisis

Background and overview

The 11th edition of Deloitte and Reform's report on the UK public sector was launched in November 2022. Since 2012, we have aimed to create an annual snapshot of what's happening across government and public services to serve as an evidence base for informed discussion.

This year's State of the State finds public attitudes deeply affected by the cost of living crisis, pessimistic for the future and passionate about climate change.

After years of reacting to crises, the latest State of the State report finds officials across the public sector eager for reform and calling for bold decisions about the future of government and public services.

Some key messages:

- The public are split on the right balance between taxes, borrowing and public spending;
- The public's message to government: deal with the crises, but don't neglect net zero;
- Our survey data found that the Scottish and Welsh Governments, as well as the NHS, are among the most trusted parts of the public sector but trust has slipped overall;
- Public sector leaders are eager for reform and calling for bold decisions about the future of government and public services.

Next steps

The full report is available at [The State of the State 2022/23 (deloitte.com)]

15.2 Sector developments (continued)

Good practice in annual reporting – National Audit Office (NAO)

Background and overview

Effective annual reporting in the public sector is more important than ever. The COVID-19 pandemic and, more recently, the energy price crisis have resulted in extraordinary public spending interventions by the government to support the public and the economy. Making government spending transparent and understandable to those who fund it – taxpayers – is therefore critical. Annual reports must clearly tell the 'story' of how these monies have been spent and what has been achieved. Crucially, annual reports and accounts must give assurance on how effective outcomes are being secured and how the risk of fraud and loss to the public purse is being appropriately managed and controlled.

Good reporting equips stakeholders with information they can use to hold organisations to account. This is why high-quality annual reports and accounts are fundamental to effective accountability.

The NAO has published a guide setting out good practice principles that it believes underpin good annual reporting. These principles are grouped under: **Supporting accountability**, **Transparency**, **Accessibility**, and the need for the report to be **Understandable**. Against these principles, the guide highlights examples which demonstrate attributes of good-practice reporting, including:

- Joined-up reporting.
- A frank and balanced assessment of risks and opportunities facing an organisation.
- Understandable non-financial information.
- Linkage between financial and non-financial information.
- Accessibility considerations.

Next steps

The full guide has been shared with management for consideration as part of the preparation for the 2022/23 Annual Report and Accounts and is available at Good practice in annual reporting - National Audit Office (NAO) insight

Appendices

Our other responsibilities explained

Fraud responsibilities

Your 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.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out in the significant risks section of this document, we have identified risks of material misstatement due to fraud in how management operate within the expenditure resource limits set by the Scottish Government, fees charged to social service workers and management override of controls.
- We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.
- We will communicate to you any other matters related to fraud that are, in our judgment, relevant to your responsibilities. In doing so, we shall consider the matters, if any, regarding management's process for identifying and responding to the risks of fraud and our assessment of the risks of material misstatement due to fraud.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Our other responsibilities explained (continued)

Fraud responsibilities (continued)

We will make the following inquiries regarding fraud and non-compliance with laws and regulations:

Management and other personnel:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to risks of fraud.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries, in particular the Chief Executive.
- We will also make inquiries of personnel who are expected to deal with allegations of fraud raised by employees or other parties.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity, including those specific to the sector.

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 SSSC and will reconfirm our independence and objectivity to the Audit and Assurance Committee for the year ending 31 March 2023 in our final report to the Audit and Assurance Committee.
Fees	The expected fee for 2022/23, as communicated by Audit Scotland in December 2022 is analyzed below:

	£
Auditor remuneration	31,360
Audit Scotland fixed charges:	
• Pooled costs	(500)
• Audit support costs	890
• Sectoral cap adjustment	(4,720)
Total expected fee	**27,030**

There are no non-audit fees.

Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council'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 have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

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