



Scottish Fiscal Commission

**Final report to the Audit & Risk Committee and the Auditor General for Scotland on
the 2023/24 audit**

Issued on 12 September 2024 for meeting on 25 September 2024

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Partner introduction (1 of 3)

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 report to the Audit & Risk Committee (“the Committee”) of the Scottish Fiscal Commission (“SFC”) for the 2023/24 audit. The report summarises our findings and conclusions in relation to the audit of the Annual Report and Accounts and the wider scope requirements, the scope of which was set out within our planning report presented to the Committee in February 2024.

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 report.

The Performance Report and Accountability Report comply with the statutory guidance and proper practice and are consistent with the Annual Report and Accounts and our knowledge of SFC. We provided management with comments and suggested changes based on review of the first draft and an update has been received confirming compliance.

The auditable parts of the Remuneration and Staff report have been prepared in accordance with the relevant regulation. This is with the exception of the pension disclosure that has not yet been provided by My Civil Service Pension (MYCSP) and is estimated to be provided by the end of August.

A summary of our work on the significant risks is provided in the dashboard on page [9](#). SFC has met its financial targets for 2023/24, resulting in an underspend of £0.154m against the budget.

No material errors have been identified to date and currently there are two uncorrected misstatements related to the AP Control Account and the Bicycle Salary Sacrifice Scheme.

Partner introduction (2 of 3)

The key messages in this report (continued)

Status of the Annual Report and Accounts audit

We have completed all of our audit procedures and have no outstanding points to address.

Conclusions from wider scope audit work

As SFC has been categorised as a less complex body, we have performed wider scope procedures related to financial sustainability only – with conclusions below:

The Commission has achieved financial balance in 2023/24 and has confirmed funding for 2024/25 with an approved balanced budget, therefore is financially sustainability in the short term.

While the indicative funding for 2025/26 and 2026/27 are expected to cover the projected costs, SFC have developed a concise Medium-Term Financial Strategy in response to Deloitte's recommendation in the 2022/23 audit.

Although this gives a clear summary of SFC's cost base, potential saving measures and funding shortfall implications, this could be improved by including forecasted numbers. This would provide a basis for understanding expected financial outcomes and aid the monitoring, planning and progress over the medium term. The 4-year projection working paper's assumptions and outputs could provide a basis for this, whilst being periodically updated to reflect evolving conditions.

Partner introduction (3 of 3)

The key messages in this report (continued)

Conclusions from wider scope audit work (Continued)

Next steps

An agreed Action Plan is included on pages [28 to 32](#) of this report, including a follow up of progress against prior year actions.

Added value

Our aim is to add value to SFC 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 SFC promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

Pat Kenny
Lead audit partner

Annual Report and Accounts Audit



Quality indicators

Impact on the execution of our audit

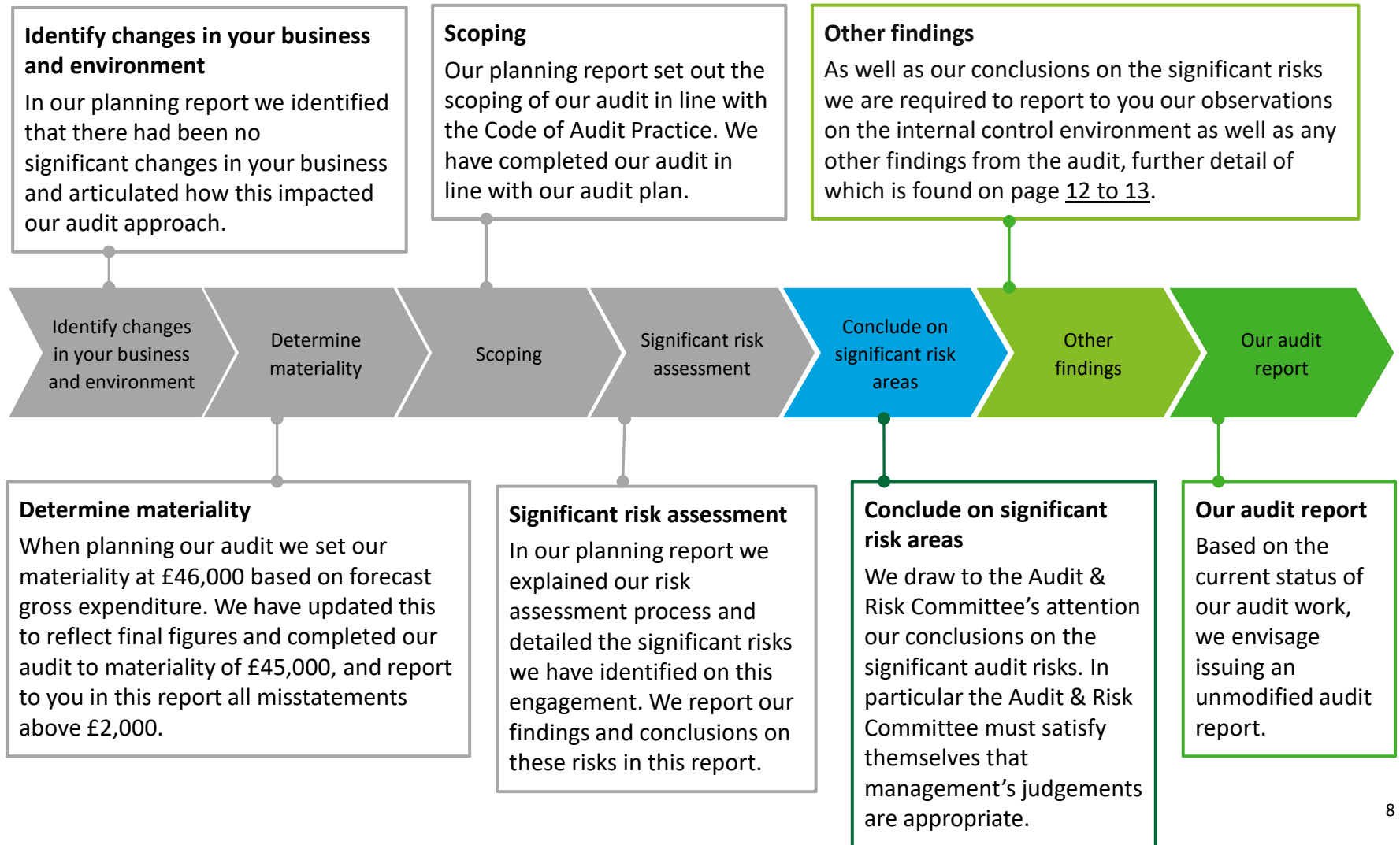
 Lagging
  Developing
  Mature

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	Further detail
Timing of key accounting judgements	N/A	SFC do not have any judgements or estimates.	N/A
Adherence to deliverables timetable		There were some delays in receiving information, this was mostly in relation to evidence that was required to be provided by the Scottish Government. Additionally, the Trial Balance and mapping documents were not submitted on time due to revisions to these documents made by SFC, which led to additional work. This metric was also graded as 'Developing' in the 2022/23 ISA 260.	N/A
Access to finance team and other key personnel		Finance team have been accessible throughout from beginning through to the end of the audit process, with the audit team informed of holidays in advance of fieldwork.	N/A
Quality and accuracy of management accounting papers		Evidence provided by management was generally found to be complete, accurate and sufficient for the purposes of our audit.	N/A
Quality of draft Annual Report and Accounts		The completed draft of the Annual Report and Accounts were not provided for audit on a timely basis.	N/A
Response to control deficiencies identified		Some deficiencies were noted, and we are satisfied with responses by management.	N/A
Volume and magnitude of identified errors		One disclosure misstatement relating to the Fair Pay disclosure was identified which was adjusted by management. Currently, two errors have been identified relating to the AP Control Account and the Bicycle Salary Sacrifice Scheme which are above our reporting threshold.	Page 33

Our audit explained

We tailor our audit to your business and your strategy



Significant risks (1 of 3)

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations
Management override of controls			Satisfactory	
Operating within the expenditure resource limit			Satisfactory	

Level of management judgement

-  Limited management judgement
-  A degree of management judgement
-  Significant management judgement

Controls approach adopted

-  Assess design & implementation

Significant risks (2 of 3)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Report and Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements.

SFC did not have any accounting estimates or judgements.

Significant and unusual transactions

Deloitte's journal entry testing has uncovered that the Scottish Government had journalled several amounts to the SFC entity code (860) incorrectly, instead of the correct entity. Our journal entry testing uncovered entries totalling £154,770.09 (£97,000 + £57,770.09) related to the above transactions, which were then reversed by the Scottish Government, leaving a net £nil amount.

Despite the journals being reversed by the Scottish Government, the above finding illustrates the importance of the monthly reconciliation of the financial tracker in identifying such transactions, which we have concluded as being effectively implemented.

Deloitte view

The significant and unusual transaction issue above raises concerns over the controls implemented within the Scottish Government in relation to financial systems.

We have not identified any instances of management override of controls from our testing to date.

Significant risks (3 of 3)

Operating within the expenditure resource limits



Risk identified and key judgements

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with prior year, we do not consider this to be a significant risk for SFC as there is little incentive to manipulate revenue recognition with the majority of revenue being from the Scottish Government which can be agreed to confirmations supplied.

We therefore considered the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Parliament. There is a risk is that SFC could materially misstate expenditure in relation to year-end transactions, in an attempt to achieve a breakeven position on their budget.

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.



Deloitte response and challenge

We have evaluated 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 included the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
- Confirming the resource limits allocated to SFC by reference to the Budget (Scotland) Act 2023;
- Performing focused testing of accruals and prepayments made at the year-end; and
- Performing focused cut-off testing of invoices received and paid around the year-end.

Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers.

Based on our testing to date, we confirm that SFC has achieved an underspend of £154,000 against the approved budget. Therefore, SFC have performed within the limits set by the Scottish Parliament.

Your control environment and findings (1 of 2)

Control deficiencies and areas for management focus

-  Low priority
-  Medium Priority
-  High Priority

Observation		Deloitte recommendation	Management response and remediation plan
SFC maintain a financial tracker that compares payments that SFC expect the Scottish Government to make, against actuals. For the reconciliation/sign off for the tracker, there is only a cell in the tracker which is then signed off when the monthly reconciliation has been performed. Confirmation as to when this has been performed is then verbalised and there is no email confirmation to show that this has been reconciled/signed off.		We recommend that an email confirmation is sent from the control owner as evidence that the financial tracker has been reconciled and signed off. This further strengthens the control which is now of heightened importance due to the incorrect transactions charged by Scottish Government as discussed on page 10.	Please see Action Plan at page 28 for management response.
The AP Control Account has been incorrectly used. This is a holding account where SFC's invoice amounts are held until paid. The listing for this account was unable to be obtained and upon further investigation, the account contained 2 invoices from 2020/21. These had been manually journalled into the account incorrectly, and the account should not have been used for these.		The request to correct this journal has been submitted to the SEAS Chart of Accounts Team and currently waiting for approval. Following correction, we recommend that controls around this account are heightened. Implementing these would ensure that the account fulfils its true purpose of containing unpaid invoices.	Please see Action Plan at page 28 for management response.

Your control environment and findings (2 of 2)

Control deficiencies and areas for management focus

-  Low priority
-  Medium Priority
-  High Priority

Observation		Deloitte recommendation	Management response and remediation plan
The Scottish Government offer a Bicycle Salary Sacrifice Scheme to SFC employees. Several employees started their individual schemes while working for other Scottish Government organisations. When they commenced working for SFC, repayment amounts were not journalled to the SFC entity code and remained with the Scottish Government Directorate accounting records.		We recommend that SFC undertake a review of which employees partake in the Bicycle Salary Sacrifice Scheme and adjust the recording process for the payments.	Please see Action Plan at page 28 for management response.

Other significant findings

Financial reporting findings

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

Qualitative aspects of your accounting practices:

To date, subject to the remaining outstanding areas, SFC's Annual Report and Accounts have been prepared in accordance with the Government Financial Reporting Manual (the "FReM"). Following our audit work, we are satisfied that the accounting policies are appropriate.

Significant matters discussed with management:

We had difficulty obtaining some audit evidence that was from the Scottish Government's shared services. Evidence from here took longer to obtain compared to internal SFC audit evidence.

Liaison with internal audit

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings.

In response to the significant audit risks identified (as discussed further on pages [9 to 11](#)), no reliance was placed on the work of internal audit and we performed all work ourselves.

We will obtain written representations from the Accountable Officer on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter will be circulated separately in due course.

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 Annual Report and Accounts

Our opinion on the financial statements is expected to be unmodified.



Going concern

We have not identified a material uncertainty related to going concern and will report that we concur with management's use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment than the continued existence of a particular body.



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 Annual Accounts 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 Annual Report and Accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page [16](#).

Your Annual Report and Accounts

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 SFC's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by SFC.	We have assessed whether the Performance Report has been prepared in accordance with the account's direction. 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. We provided management with comments and suggested changes which management have updated in the revised draft.
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.	We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Report and Accounts and has been prepared in accordance with the account's direction. No exceptions noted. 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. We provided management with comments and suggested changes which management have updated in the revised draft. We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the account's direction (subject to receipt of pension confirmations).

Our approach to quality (1 of 3)

FRC 2023/24 Audit Quality Inspection and Supervision report

Audit quality shapes our vision of the business we want to be, driving our priorities and defining our successes.

In July 2024, the Financial Reporting Council ("FRC") issued individual reports on each of the six largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2023/24 cycle of reviews. We value the observations raised by both the FRC Supervision teams and the ICAEW Quality Assurance Department ("QAD"), both in identifying areas for improvement and also the ongoing focus on sharing good practice to drive further and continuous improvement.

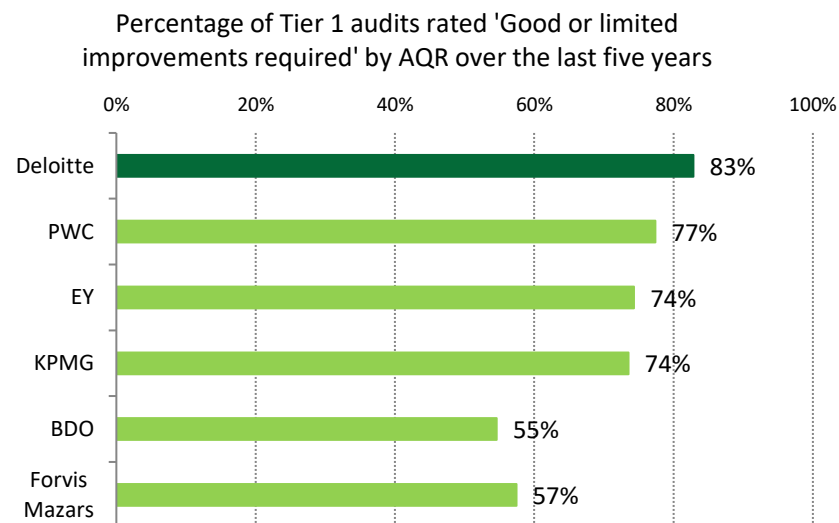
We are proud that the results of our FRC inspections show that 94% (2022/23: 82%) of our public interest audits were rated as 'good' or 'limited improvements' and that 100% (2023: 100%) of our audits reviewed by the ICAEW's QAD were assessed as good or generally acceptable.

These sets of results reflect the continuous investment we are making and our commitment to acting in the public interest to deliver confidence and trust in business through our high-quality audits. We recognise we still have more we want to do to ensure that we consistently meet the high standards we expect of ourselves. We take inspection, system of quality management ("SoQM") and supervision focus areas seriously and place a significant level of resource and effort into understanding how we continually improve going forward.

We are pleased to see the positive impact of actions taken over the last 12 months to address findings raised by the FRC. We have a reduction in the number of key findings and none of the AQR findings from the 22/23 inspection cycle have recurred as key findings in this year's cycle.

We welcome the breadth and depth of good practice points raised by the FRC and ICAEW, particularly in respect of effective group oversight, contract accounting and the challenge of management, where we have continued to take action to support the high-quality execution of audit work.

All the AQR public reports are available on the [FRC's website](#).



Our approach to quality (2 of 3)

FRC 2023/24 Audit Quality Inspection and Supervision report - overall comments

The boxes below detail the FRC's overall comments and Deloitte responses as published in the overview page of the 23/24 public report.

The AQR's 2023/24 Audit Quality Inspection and Supervision Report on Deloitte LLP:

"Deloitte has continued to respond positively to and has made good progress on actions to address our previous findings. This has resulted in improvements which are reflected across the audit inspections."

"The percentage of audits inspected by the FRC requiring no more than limited improvements was 94%, which shows a continued improvement on the prior year. The equivalent results for FTSE 350 audits inspected was 100%. One of the audits we inspected was found to require significant improvements. The findings that contributed most to this year's inspection results related to the audit of impairment assessments. We have previously identified key findings and examples of good practice in this audit area. The firm should review the effectiveness of its actions to ensure greater consistency."

The overall results profile for inspections by the ICAEW was 100% classified as good or generally acceptable. The firm's internal quality monitoring results show a year-on-year improvement."

Deloitte response to Audit Quality Inspection key findings

"We are pleased to see the positive impact of actions taken over the last 12 months to address findings raised by the FRC. We have a reduction in the number of key findings and none of the AQR findings from the 22/23 inspection cycle have recurred as key findings in this year's cycle."

The following page sets out our response to key findings in relation to the 23/24 cycle.

Review of the firm's system of quality management (SoQM):

"Deloitte has implemented ISQM (UK) 1, including monitoring and remediation processes, and completed its first annual evaluation of its SoQM. Deloitte has invested considerable effort into implementing its new system. The firm has already begun the iterative process of improving and refining it, including in response to our feedback. The firm needs to strengthen aspects of its SoQM, including certain elements of monitoring processes, and enhance its evidencing of its SoQM, especially its monitoring and annual evaluation processes."

Deloitte response to review of SoQM

"Audit quality is always front and centre and we believe that an effective SoQM is crucial for its delivery. ISQM (UK) 1 implementation facilitated a critical assessment and enhancement of our existing SoQM. On 31 May 2023, we were pleased to be able to issue our first conclusion on the effectiveness of our SoQM, being satisfied that our SoQM provides the firm with reasonable assurance that the objectives of ISQM (UK) 1 are being achieved. We have valued the independent review performed by the FRC, and the further objective insights this has brought. We have already taken action to address the matters raised by the FRC, improving the evidencing of the rigour of our responses in areas of judgement and working to standardise the capture of risks and responses. The environment in which we operate continues to evolve, and we remain focussed on identifying and investing in the changes required to keep our SQM effective."

Our approach to quality (3 of 3)

PCAOB public report on Deloitte

In May 2021 the PCAOB published their report on the 2019 inspection of Deloitte UK. Three of our most complex audits were subject to the inspection and the PCAOB made one public comment in relation to our execution of confirmation procedures. We have evaluated the matter identified by the Board's inspection team and have taken appropriate action to deal with it on that engagement as well as across our audit portfolio.

Regulatory inspections and outside perspectives are critical to raising standards and achieving quality outcomes—we value the feedback received through the external inspection process and utilize input from various sources to continually improve the quality of our audits. We carefully analyse inspection themes, identify causal factors, and design responsive remedial actions to PCAOB findings. The PCAOB's inspection process serves an important role in the achievement of our shared objectives of improving audit quality and serving investors and the public interest.

The PCAOB's May 2021 report on their 2019 inspection reflects our continued focus on quality, but we are not complacent and continue to drive further improvements. The results of the PCAOB's 2022 Inspection are not yet publicly available. We expect the 2022 Inspection Report results on 2021/22 audits to continue to demonstrate our unrelenting commitment to audit quality.

Since the Deloitte Network established a global Centre of Excellence for Audit Quality in 2015, we have continued to build and develop our own Centre of Excellence. The UK PCAOB Audit Quality and Risk Management team is a well-established part of our National Office.

With emerging capabilities and technologies, we continue to accelerate our progress, including leveraging technology to strengthen our system of quality control through enabling a more proactive approach to managing and responding to audit quality risks. We are pleased that our ongoing digital transformation, along with the investments we continue to make in our audit processes, our people, and our technology, are resulting in significant, sustainable enhancements to our audit quality.

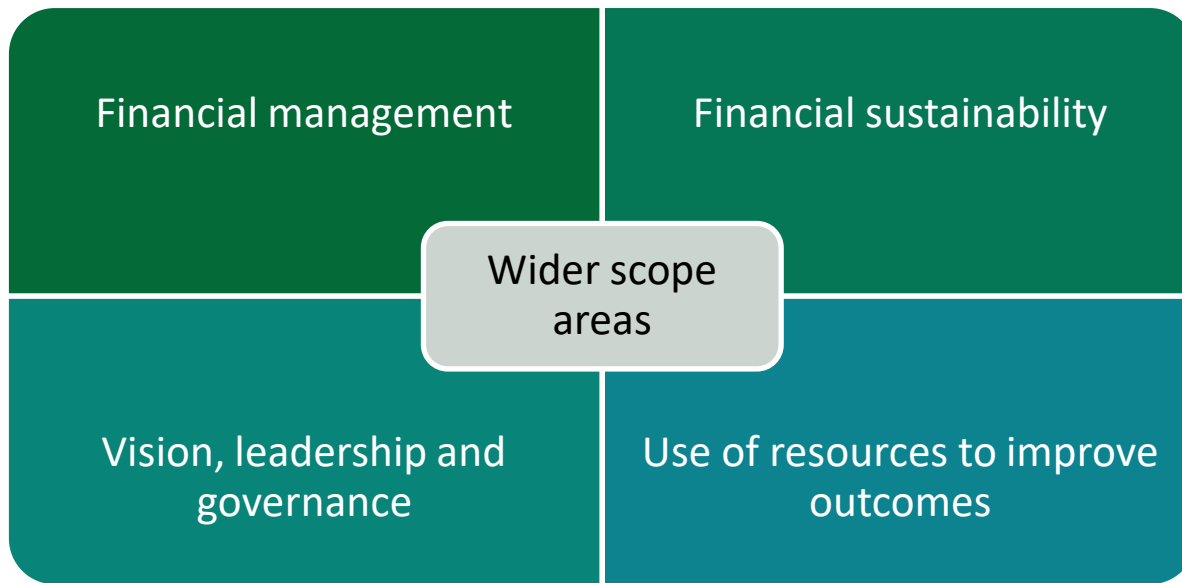
Wider scope audit



Wider scope requirements (1 of 5)

Overview

As set out in our audit plan, 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.

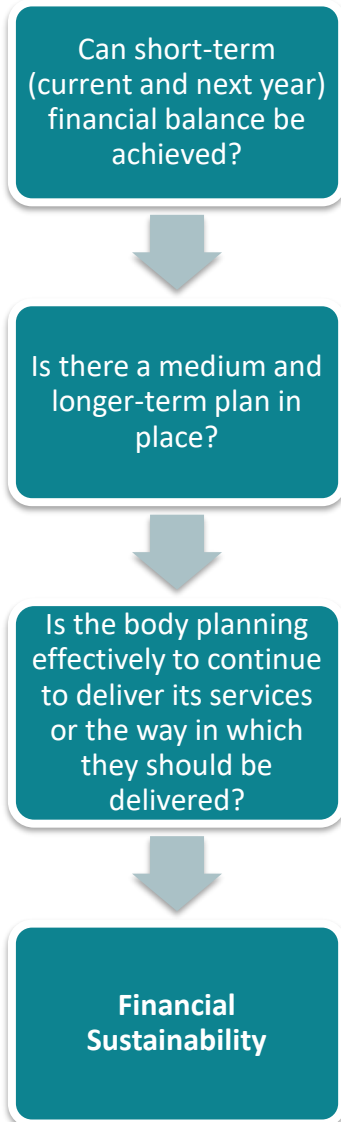


The Scottish Public Finance Manual (“SPFM”) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to 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.

We have concluded that SFC are assessed as ‘less complex’ in accordance with Audit Scotland planning guidance and therefore our wider scope work is limited to assessing the financial sustainability of SFC.

Wider scope requirements (2 of 5)

Financial sustainability



Significant risks identified in Audit Plan

In our Audit Plan we highlighted that while the Commission has received indicative funding levels from the Scottish Government for a three-year period, in the absence of a fully developed medium term plan, there is a significant risk that the Commission is unable to demonstrate that the funding is sufficient to cover costs in the medium to longer term.

2024/25 budget setting

The Commission's core budget allocation appears as distinct line items in the Annual Scottish Budget Bill. The confirmed budget allocation for 2024/25 is £2.706m million. The breakdown of this budget was presented to the Governance Board on 11 March 2024 in advance of submitting the funding request to the Scottish Government. This provided a granular detail of the proposed budget allocations and assumptions applied and how this compared to previous year costs, demonstrating that a balanced position is expected to be achieved.

An underspend for 2024/25 of £41,000 was predicted in March 2024, and staffing impacts, the biggest uncertainty of the Commission, were included in this projection. Many non-staff costs also remain uncertain. Due to the major uncertainty being centred around staffing concerns – staff leaving the Commission, leaves of absence, recruitment, and onboarding timeliness, a prudent approach had been taken in past financial years, and a £50,000 contingency was applied.

The Commission is of the opinion that having additional staff members would add better value as opposed to absorbing underspends through non-staff spending at the end of the year. Based upon this, a new approach to staffing costs will ensue from 2024/25. Using the historical trend of underspending as a basis, it has been decided that there will be an overbudgeting of up to 4% of SFC's core budget for staffing costs.

Should the risk of overspending materialise, there are four factors to mitigate this risk:

- *The multi-year pay settlement agreed in advance has removed uncertainty*
- *The utilisation of fixed term staff as opposed to permanent staff.*
- *The retention of the £50,000 contingency.*
- *The likelihood of underspend on the fee for the statutory review.*

Wider scope requirements (3 of 5)

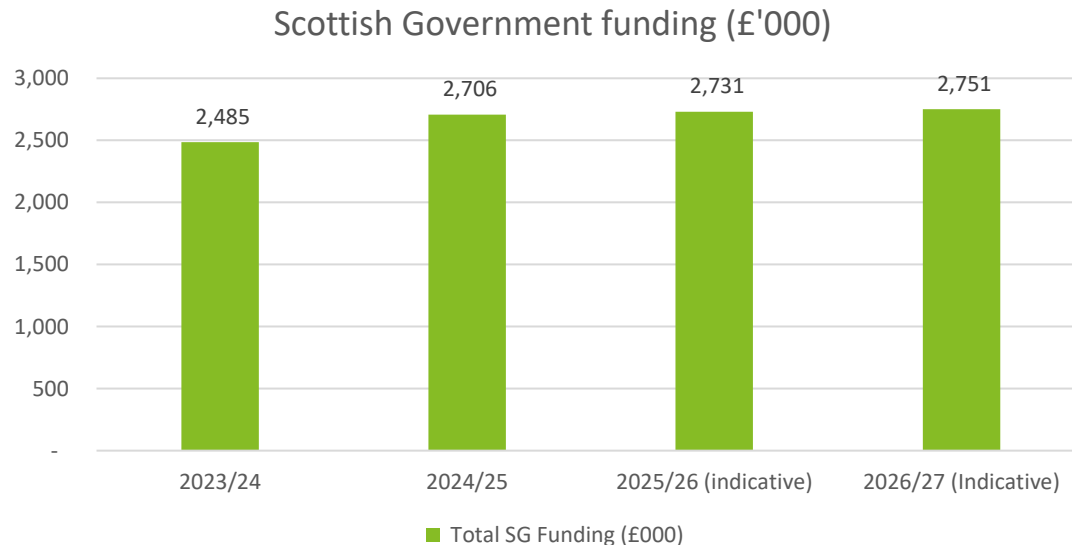
Financial sustainability

Medium-to-long term financial planning

At the same time as receiving the budget allocation for 2024/25, the Scottish Government also provides indicative figures for the following two years. This is particularly unique to the Scottish Fiscal Commission to protect their independence and role played in the wider Scottish Government budget and, in line with the OECD's Principles for Independent Fiscal Institutions.

In submitting its budget request for 2024/25, and the subsequent 2 years, the Commission has prepared a working document setting out different scenarios to inform the discussions with the Scottish Government.

The indicative funding is expected to remain reasonably consistent in future years and this is in line with the estimated costs of the Commission and therefore, it is not expected to have a significant impact on its ability to deliver its responsibilities set out in the Act. However, historically the Commission has received the funding that it has requested from the Scottish Government, therefore there remains a risk over the medium term as the pressures across the whole of the public sector are increasing that this may not continue. It is important that this is closely monitored.



Wider scope requirements (4 of 5)

Financial sustainability

Medium-to-long term financial planning (continued)

Strategic planning, financial planning and workforce planning are intrinsically linked and critical to the future success of any organisation. In our 2022/23 audit of SFC, it was noted that the Commission had not prepared a formal medium term financial plan. Given that over 80% of costs are staff costs, which are driven by national pay awards, and there are no planned changes to the scope of the Commissions work, there is little complexity in future projections. As noted above, the indicative funding advised by the Scottish Government is expected to meet the planned costs over the medium term.

During the year, the Commission has developed a Medium-Term Financial Strategy called the Medium Term Approach to the SFC's Budget Planning (to avoid confusion with SG's Medium Term Financial Strategy), in recognition of the wider funding pressures across the public sector and the potential impact this could have for the Commission. An overarching theme of this strategy is the focus on the Commission being staff based, and as such, staff costs are presented as the key risks and the key to potential savings.

Audit Scotland's report, published in June 2014 [Scotland's public finances – A follow-up audit: Progress in meeting the challenges \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/publications/scotland-s-public-finance-a-follow-up-audit-progress-in-meeting-the-challenges) included a helpful summary of important features of a financial strategy, as summarised in. Management have made reference to this as a guide to best practice, but scenario analysis and financial figures are missing from the paper.

Medium-to-long term financial planning (continued)

Scottish Government expects bodies to set an annual efficiency target of 3% and also expects them to explore the scope to maximise the use of shared services across the public sector landscape. We have considered each of these elements as applicable to the Commission as follows:

Savings targets

SFC do not have a separate savings plan. Savings are considered when funding bids are submitted to the Scottish Government as part of the preparations in advance of the Budget Bill process.

While the budget requests to the Scottish Government incorporate potential savings, the budget monitoring reports to the ARC currently do not set out how those will be achieved. This is an area that the Commission could incorporate into future budget setting papers to demonstrate how it is contributing to the efficiency target. While the 3% target has been removed in the latest Scottish Government Medium Term Financial Strategy published in May 2023, it is still important for the Commission to demonstrate how efficiencies are being achieved. This ensures resources are managed carefully by the Commission.

Wider scope requirements (5 of 5)

Financial sustainability

Medium-to-long term financial planning (continued)

Use of shared services

The Commission currently has shared service agreements in place with the Scottish Government for a number of services including the financial system, HR and IT. In April 2023, Internal Audit provided Reasonable Assurance on the arrangements for risk management, control and governance over the Key Corporate Systems. The implementation of the new systems provides a fresh opportunity to enhance controls related to these systems, hopefully driving efficiency for the Commission.

The SG programme to replace the current HR and Finance systems with Oracle Cloud in October 2024 is inherent of the following key risks:

- *Integration issues*
- *User adoption and training*
- *Data quality and migration*
- *Technical challenges affecting operational activity*

Similar to Internal Audit, we agree that to support successful implementation and to realise the benefits of the system, there has to be an ongoing channel of communication, engagement, and training of staff to support the implementation. We strongly advise management to continue to cooperate with the Programme team to monitor developments and risks.

We plan to assess the implementation of the new system in the Planning phase of our 2024/25 audit.

Deloitte view – Financial Sustainability

The Commission has achieved financial balance in 2023/24 and has confirmed funding for 2024/25 with an approved balanced budget, therefore is financially sustainability in the short term.

In relation to the new approach to staffing costs, the reasons behind the overbudgeting are logical, and the four factors which mitigate the risk of overspending materialising are valuable. The Commission must maintain sound financial planning and monitoring of this, ensuring financial discipline. We will assess the impact of this in the 2024/25 audit and assess whether this has added value.

While the indicative funding for 2025/26 and 2026/27 are expected to cover the projected costs, SFC have developed a concise Medium-Term Financial Strategy in response to Deloitte's recommendation in the 2022/23 audit.

Although this gives a clear summary of SFC's cost base, potential saving measures and funding shortfall implications, this could be improved by including forecasted numbers. This would provide a basis for understanding expected financial outcomes and aid the monitoring planning and monitoring of progress over the medium term. The 4-year projection working paper's assumptions and outputs could provide a basis for this, whilst being periodically updated to reflect evolving conditions.

While the 3% efficiency target has been removed in the latest Scottish Government Medium Term Financial Strategy published in May 2023, it is still important for the Commission to demonstrate how efficiencies are being achieved. This ensures resources are managed carefully by the Commission.

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 & Risk Committee 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; and
- 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 Annual Report and Accounts.

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

Use of this report

This report has been prepared for SFC, 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 SFC.

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 audit of the financial statements and the other procedures performed in fulfilling our audit plan.

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



Deloitte LLP

Glasgow | 12 September 2024

Appendices



Action Plan (1 of 5)

The following recommendations have arisen from our 2023/24 audit work:

Recommendation	Management Response	Responsible Person	Target Date
1. Financial Tracker We recommend that an email confirmation is sent from the control owner as evidence that the financial tracker has been reconciled and signed off. This further strengthens the control which is now of heightened importance due to the incorrect transactions recorded by Scottish Government.	A further line will be added to the tracker to allow confirmation of the monthly reconciliation which will be completed before the monthly snapshot is saved to eRDM.	Governance Manager	31 March 2025
2. Medium-Term Approach to SFC's Budget Planning Although this gives a clear summary of SFC's cost base, potential saving measures and funding shortfall implications, this could be improved by including forecasted numbers. This would provide a basis for understanding expected financial outcomes and aid the monitoring planning and monitoring of progress over the medium term. The 4-year projection working paper's assumptions and outputs could provide a basis for this, whilst being periodically updated to reflect evolving conditions.	These figures are already available to management and commissioners in a working spreadsheet and we believe it would not add significant value to include this level of detail within this paper.	Head of Governance, Strategy, and Corporate Services	31 March 2025

Action Plan (2 of 5)

The following recommendations have arisen from our 2023/24 audit work:

Recommendation	Management Response	Responsible Person	Target Date
3. Efficiency Targets While the 3% efficiency target has been removed in the latest Scottish Government Medium Term Financial Strategy published in May 2023, it is still important for the Commission to demonstrate how efficiencies are being achieved. This ensures resources are managed carefully by the Commission.	Additional text to address this will be included in the Annual Report and Account and in future Annual Reports and accounts.	Head of Strategy, Governance, and Corporate Services	15 October 2024
4. Oracle Cloud Implementation To support successful implementation and to realise the benefits of the system, there must be an ongoing channel of communication, engagement, and training of staff to support the implementation. We strongly advise management continue to cooperate with the Programme team to monitor developments and risks.	Management and the Corporate Services Team has been and is continuing to engage with the Oracle Cloud implementation teams.	Head of Strategy, Governance, and Corporate Services	31 March 2025

Action Plan (3 of 5)

We have followed up the recommendations made in 2022/23. We are pleased to note that four recommendations have been fully implemented as documented below.

Recommendation	Prior Year Management Response	Status
1. Annual and Flexi leave accrual Annual leave balances should be fully updated for each employee by time the calculation for the holiday accrual takes place. This will ensure the accrual is calculated based on the correct inputs.	Staff and managers will be reminded of the need to ensure that eHR and flexi is full up to date by the end of the financial year. This will ensure that the year-end pack produced by SG People Directorate is as accurate as is possible.	All staff were repeatedly reminded of the need to ensure that eHR and Flexi System were up to date by the end of the financial year.
2. Payroll accruals Due to the difference found between the payroll accruals and the amounts paid by the Scottish Government. SFC should ensure that they review the month end report from the Scottish Government and ensure it agrees to the SFC's tracker.	We monitor the payroll for the account codes that are costs to the Commission and ensure the tracker and payroll report agree each month. We don't do so for the control codes as these are managed by SG Pay team on our behalf as part of the HR shared service we purchase. We intend to improve our controls and checks for the payroll impacts when staff leave and join the Commission.	Payroll reports are reconciled with the relevant account codes at the end of each month, and payroll adjustments are made as and when required when staff join from or return to Scottish Government or another body in the Scottish Administration. A new tab has been set up specifically to track and check joiners and leavers.

Action Plan (4 of 5)

Recommendation	Prior Year Management Response	Status
3. Accruals balance The SFC had picked up that they incorrectly had prior year accruals in their current year balance, which they then adjusted for. To prevent this in the future, the SFC should ensure checks are done on the balance at the year end to ensure all the accruals relate to the financial year.	We intend to develop a register for year-end accruals and prepayments.	This has been implemented. There were no prepayments in 2023/24.
4. Financial sustainability The Commission should develop a medium term financial strategy, building on the work done as part of the 5 year forecasts, in recognition of the wider funding pressures across the public sector and the potential impact this could have for the Commission.	We will develop a strategic document that considers our financial sustainability over the next 10-15 years that reflects our status as a small Non-Ministerial Office whose costs are principally related to staffing and who have no long-term fixed assets such as buildings. This document will consider the likely demands for our work and cost pressures.	This has been completed, shared with Deloitte in May and published on the Commission's website: https://www.fiscalcommission.scot/publications/medium-term-approach-to-the-sfcs-budget-planning/

Action Plan (5 of 5)

Recommendation	Prior Year Management Response	Status
5. Financial sustainability The Commission should consider incorporating efficiencies agreed into future budget setting papers to demonstrate how it is contributing to the wider Scottish Government efficiency target.	We already seek, identify, and include efficiencies in our annual budget request and will continue to do so. We also work with other public bodies to identify and implement shared working that can deliver savings or increased quality and will continue to do so.	N/A
6. Climate change Consideration should be given to including a specific section in the Annual Report and Accounts to incorporate any specific plans that are in place to achieve the targets and provide hyperlinks to any other reporting.	As page 29 of this report notes, our opportunities for emissions reductions are limited and we are not required to report annually on compliance with climate change duties. We do already report every two years as part of our report under the Biodiversity etc Act on the actions being taken by the Commission to address climate change, recognising the limited scope and impact given the size and nature of the Commission's role and will provide hyperlinks in next year's annual report.	We judge that the level of reporting already undertaken through the Biodiversity etc Act on the actions being taken by the Commission to address climate change is an appropriate and proportionate level of reporting, given the nature and size of our organisation. Deloitte are satisfied with the current disclosure. However, we recommend this is continually monitored and updated if necessary.

Audit adjustments (1 of 2)

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which are above our clearly trivial threshold.

		Debit/(credit) SOCNE £	Debit/(credit) in net assets £	Debit/(credit) prior year reserves £	Debit/(credit) Equity £	If applicable, control deficiency identified
Misstatements identified in current year						
Trade and Other Receivables	[1]		3,109			See page 13
Cash & Cash Equivalents	[1]		(3,109)			See page 13
Expenses	[2]	2,471				See page 12
Trade and Other Payables	[2]		(2,471)			See page 12
Total		2,471	(2,471)			

[1] Repayment amounts in relation to the Bicycle Salary Sacrifice Scheme had not been journalled to the SFC entity code and remained with the Scottish Government Directorate accounting records.

[2] The AP Control Account contained 2 invoices from 2020/21. These had been manually journalled into the account incorrectly, and the account should not have been used for these.

Audit adjustments (2 of 2)

Corrected misstatements

The following 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.

Disclosures

SFC incorrectly calculated the fair pay disclosure. Specifically, the 25th percentile, 25th percentile ratio, median ratio, 75th percentile and 75th percentile ratio. SFC have agreed to amend this for the final version of the Annual Report & Accounts.

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 SFC to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked SFC to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.



Audit work performed:

In our planning we identified the risk of fraud in operating within expenditure resource limits and management override of controls as a key audit risk.

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.

We have reviewed the paper prepared by management for the Audit & Risk Committee on the process for identifying, evaluating and managing the system of internal financial control. We will explain in our audit report (for all entities subject to audit) 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.

Concerns:

No issues or concerns have been identified in relation to fraud.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation

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

Fees

The expected fee for 2023/24, as communicated by Audit Scotland in December 2023 is analysed below:

	£
Auditor remuneration	38,960
Audit Scotland fixed charges:	
• Pooled costs	3,930
• Audit support costs	0
• Sectoral cap adjustment	(12,320)
Total expected fee	30,570

Non-audit services

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



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