Deloitte.

SCOTTISH LAND COMMISSION
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Scottish Land Commission

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

18 November 2024

Contents

1. Engagement lead introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit & Risk Committee ("the Committee") of Scottish Land Commission ("SLC") 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 March 2024.

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our completed audit work we have issued an unmodified opinion.

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 the Commission.

A summary of our work on the significant risks is provided in the dashboard on page 8. The Commission reported an underspend of £58,000 against grant-in-aid.

No material errors have been identified and there are no uncorrected misstatements. One corrected misstatement in excess of our reporting threshold of £1,500 has been identified which is included within the Appendix to this report. This has no impact on the final results of the Commission.

1.1 Engagement Lead Introduction (continued)

The key messages in this report (continued)

Status of the Annual Report and Accounts audit

Our audit work is now complete

Conclusions from wider scope audit work

Financial sustainability

As set out in our Audit Plan, we concluded that the SLC is a "less complex body". Our work was therefore restricted to considering the financial sustainability of SLC. We have concluded that SLC is financially sustainable in the short term with a balanced budget being set for 2024/25. However, medium term financial projections are currently showing that while the core operations are sustainable, there may be significant challenge with regards to additional available project expenditure depending on available Grant in Aid funding. The financial sustainability of the Commission is set be of increased importance due to the potential Land Reform Bill.

Financial sustainability

SLC has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development as part of their ongoing operations.

Next steps

An agreed Action Plan is included on page 30 of this report, including a follow up of progress against prior year actions.

Added value

Our aim is to add value to the Commission by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Commission promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

We have also included our "sector developments" on page 24 where we have shared our research and informed perspective and best practice from our work across the wider public sector that are specifically relevant to central government bodies.

Mohammad Ramzan

Engagement Lead


Annual Report and Accounts Audit

2. 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	Not applicable as the Annual Report and Accounts do not contain any key accounting judgements.	N/A
Adherence to deliverables timetable	Developing	Management did not provide all deliverables in time for the beginning of the fieldwork stage of the audit. In total, 38% of requests were submitted on time. However, following commencement of the fieldwork stage, management provided deliverables promptly.	N/A
Access to finance team and other key personnel	Mature	Finance team have been accessible throughout, with the audit team informed of flexible working patterns in advance of audit fieldwork.	N/A
Quality and accuracy of management accounting papers	Mature	Documentation provided was of a high standard which enabled an efficient audit. Working papers were clear and reconcilable to the Annual Report and Accounts.	N/A
Quality of draft Annual Report and Accounts	Mature	The initial version of the draft Annual Accounts was of appropriate quality. Review comments were addressed promptly.	N/A
Response to control deficiencies identified	Mature	No control deficiencies have been noted.	N/A
Volume and magnitude of identified errors	Mature	One misstatement above our reporting threshold was identified, being an overstatement of an accrual related to a research project in partnership with The University of Edinburgh. The misstatement is not material and has no impact on SLC's financial results. This has been corrected by management.	Page 30

3. Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit, further detail of which is found on page 11.

Determine materiality

When planning our audit we set our materiality at £21,000 based on budgeted gross expenditure. We have updated this to reflect final figures and completed our audit to £31,000, performance materiality of £22,000 and report to you in this report all misstatements above £1,500.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Audit & Risk Committee's attention our conclusions on the significant audit risks. In particular the Audit & Risk Committee must satisfy themselves that management's judgements in are appropriate.

Our audit report

Based on our audit procedures, we have issued an unmodified audit opinion.

4.1 Significant risks

Significant risk dashboard

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

Controls approach adopted

DI Assess design & implementation

Controls conclusion

Satisfactory

Not Satisfactory

Consistency of judgements with Deloitte's expectations

⚠ Consistent

⚠ Improvement required

⚠ Inconsistent

4.2 Significant risks (continued)

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.

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias; and
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

Significant and unusual transactions

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

Deloitte view

We have not identified any instances of management override of controls from our audit procedures.

4.3 Significant risks (continued)

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 previous years, we do not consider this to be a significant risk for the Commission 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 Government. There is a risk is that SLC 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.

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;
- Obtaining independent confirmation of the resource limits allocated to SLC by the Scottish Government;
- Performing focused testing of accruals and prepayments made at the year-end; and
- Performing focused cut-off testing of invoices received and paid around the year-end.

Deloitte view

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

We confirm that the Commission has performed within the limits set by Scottish Government, ending with an underspend of £58,000. One misstatement was identified through our testing of accruals. This was found to be an isolated error and therefore no control deficiency has been raised. The error was corrected by management.

5. Other significant findings

Financial reporting findings

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

Qualitative aspects of your accounting practices:

Scottish Land Commission’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:

There were no significant matters raised with management.

Regulatory change

IFRS 16, Leases, came into effect on 1 April 2022, with 2022/23 being the first year of implementation and we did not identify any significant issues. From our testing, Deloitte have confirmed that SLC has correctly disclosed that they have no right of use assets or leases falling under IFRS 16 for 2023/24.

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 10), no reliance was placed on the work of internal audit and we performed all work ourselves.

We have obtained written representations from the Commission on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

6. 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 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 is discussed further on page 13.

7. 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 the Commission's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the Commission.	We have assessed whether the Performance Report has been prepared in accordance with the Accounts 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.
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 accounts 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 have also audited the auditable parts of the Remuneration and Staff Report and have confirmed that it has been prepared in accordance with the accounts direction.

8.1 Our approach to quality

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.

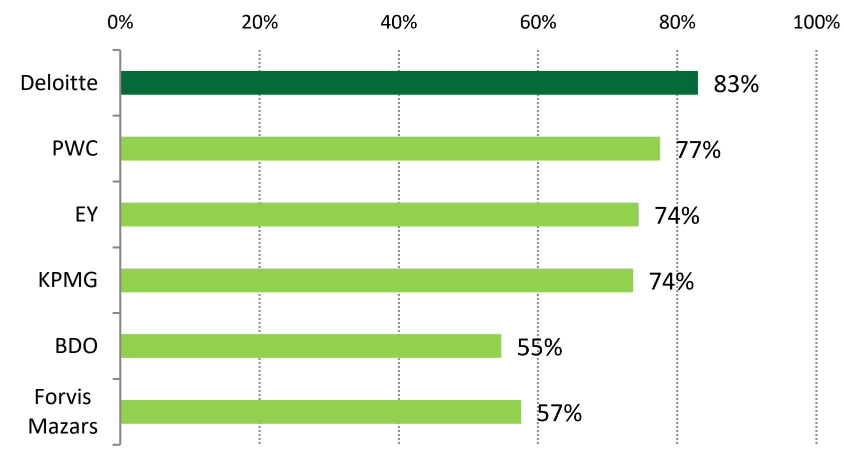
These sets of results reflect the continuous investment we are making and our commitment to acting in the public interest to deliver confidence and trust in business through our high-quality audits. We recognise we still have more we want to do to ensure that we consistently meet the high standards we 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.

Percentage of Tier 1 audits rated 'Good or limited improvements required' by AQR over the last five years



8.2 Our approach to quality

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

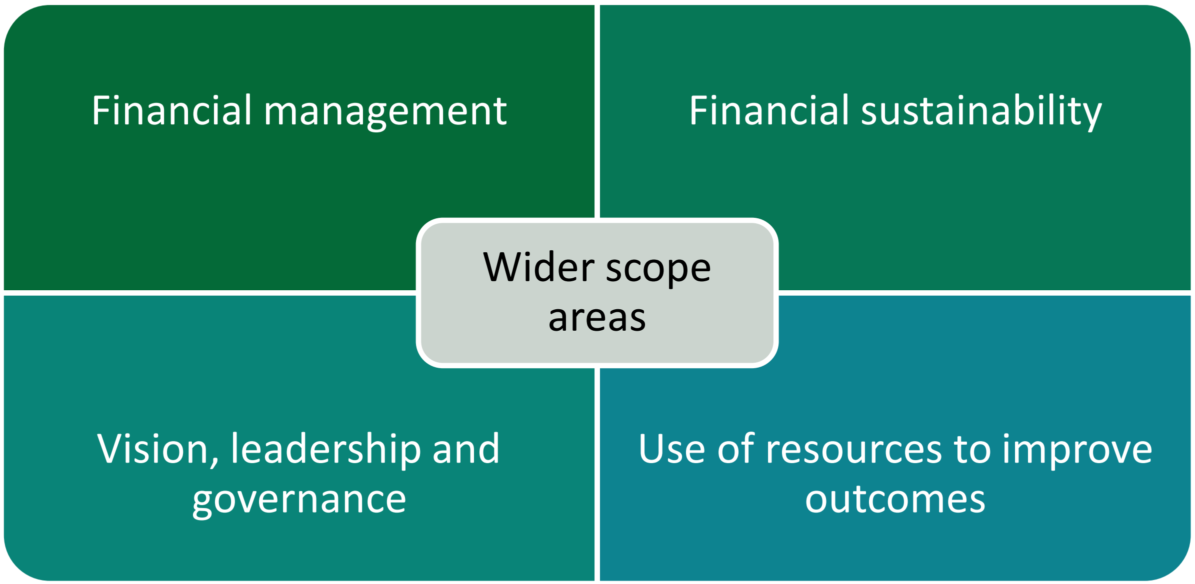
"Audit quality is always front and centre and we believe that an effective SoQM is crucial for its delivery. ISQM (UK) 1 implementation facilitated a critical assessment and enhancement of our existing SoQM. On 31 May 2023, we were pleased to be able to issue our first conclusion on the effectiveness 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."

Wider scope audit

9.1 Wider scope requirements

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.



As highlighted in our Audit Plan and agreed with the Commission we concluded that SLC was assessed as “less complex” in accordance with Audit Scotland planning guidance and therefore our wider scope work was limited to assessing the financial sustainability of SLC.

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.

9.2 Wider scope requirements (continued)

Financial sustainability

Can short-term (current and next year) financial balance be achieved?

Is there a medium and longer-term plan in place?

Is the body planning effectively to continue to deliver its services or the way in which they should be delivered?

Financial Sustainability

Significant risks identified in Audit Plan

In our audit plan, we recognised that the SLC had a medium term financial plan in place that highlighted the potential gaps in future funding if the level of Grant-in-Aid (GiA) were not increased. The Scottish Government's Land Reform Bill consultation also has the potential to significantly change the responsibilities of the SLC. We therefore identified that there was a significant risk that robust medium-to-long term planning arrangements were not in place to ensure that SLC can manage its finances sustainably and deliver services effectively, identify issues and challenges early and act on them promptly.

2024/25 budget setting

The Commission approved a balanced budget of £1.6m for 2024/25 in the March 2024 Commissioner's meeting. This represented a small 2.56% increase on the budget of £1.56m in 2023/24. With this allocation, priority was given to the support the development of an effective Land Reform Bill. Additionally, importance was highlighted on providing support and assistance to aid Scotland's housing challenge.

A target of being within 2% of the total allocated budget as an end of year outturn position has been set by the Commission. As at 21 June 2024, through in year savings, a 1% overspend of £14.3k is being projected for the 2024/25 financial year.

The key risks for 2024/25 identified by the SLC were as follows:

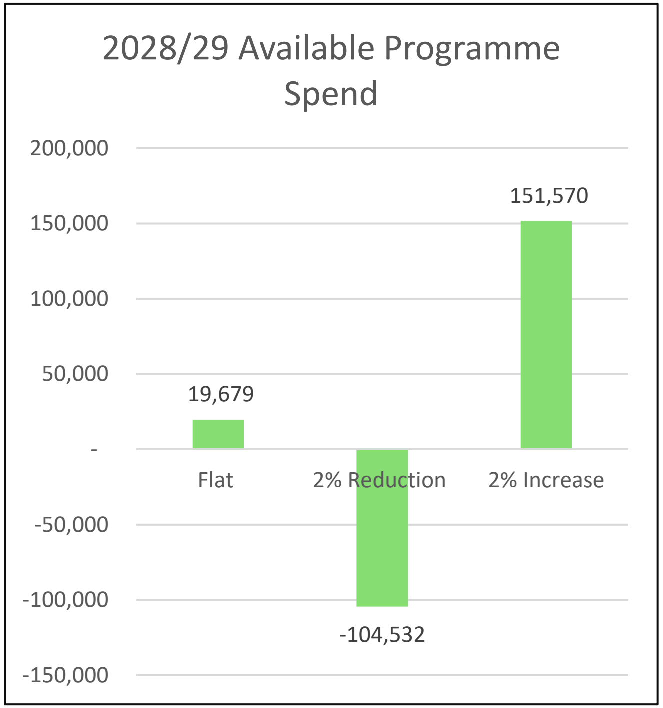
- Increased costs - staff, commissioner, operating, and service procurement costs.
- Adherence to the allocated budget.
- Uncertainty over changes to the future responsibilities of the SLC.
- Increased committed spend from the start of the year restricting the amount of flexibility for additional spend throughout the year.

9.3 Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning

The Commission has developed a Medium-Term Financial Strategy (MTFS) to manage these risks, underpinned by measures to ensure effective monitoring of spend. The 2023/24 MTFS was presented to the Board in February 2024 and provided an update on scenarios considered by the Board in February 2023. Noteworthily, as the Land Reform Bill has not been finalised, the MTFS has not included the impacts of the Bill due to the uncertainty still surrounding it. The SLC's MTFS covers the period from 2023/24 – 2029/30. This includes scenario analysis based on the continuation of a 'flat cash' settlement, a 2% reduction and 2% increase in grant-in-aid. This allows the Commission to effectively consider varying implications for financial planning. Once the Land Reform Bill is finalised, this should be incorporated into the MTFS.



Following analysis within the MTFS, the SLC conclude the following:

- Based on their current split of fixed/flexible costs, the Commission would be able to continue to operate with a flat cash scenario but with reduced staff numbers from 2024/25. This would lead to the SLC needing to reduce their delivery accordingly.
- If a 2% cut is applied to their grant-in-aid, the Commission can adjust over two years by reducing delivery. However, if this was applied year-on-year, they would not be able to continue to operate their current operational activities, priorities, and delivery. There would be an extreme lack of resource to Commission and provide expertise. Staff numbers would also fall, culminating in a significant risk to delivery.
- A 2% increase in grant-in-aid would have a significant impact on SLC's delivery capacity. Current staff capacity would be able to be withheld, enabling effective continuation of the SLC's good practice programme and policy advice. This would permit the flexibility required to deliver on emerging government priorities.

9.4 Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning (continued)

By 2028/29, a flat cash scenario would have significantly reduced the ability of the Commission to operate their current model which combines in-house expertise with the ability to contract research and specialist expertise. The SLC would not have the resources to commission research, analysis, or specialist advice. This is would prohibit the capacity for the SLC to inform policy development and restricts flexibility to deliver on their priorities.

A flat cash grant-in-aid of £1.6m matched with rising staff costs and other fixed costs would result in a significant reduction in available programme spend. This would lead to severe challenges to deliver on core services by 2027/28, with deep financial concerns in the years thereafter.

	24/25	**25/26**	**26/27**	**27/28**	**28/29**	**29/30**
Grant-in-Aid	**1,600,000**	**1,600,000**	**1,600,000**	**1,600,000**	**1,600,000**	**1,600,000**
Staff costs (permanent)	1,065,288	1,118,552	1,174,480	1,233,204	1,294,864	1,359,607
Staff costs (fixed term)	86942	65133	0	0	0	0
Commissioner costs	62000	63,240	64,504	65,794	67,109	68,452
Other fixed costs	194000	199820	205,814	211,989	218,348	224,899
Total fixed costs	**1,408,230**	**1,446,745**	**1,444,798**	**1,510,987**	**1,580,321**	**1,652,958**
Available programme spend	**191,770**	**153,255**	**155,202**	**89,013**	**19,679**	**(52,958)**

In all scenarios SLC would be able to deliver its core services to 2027/28, however the available programme spend would differ significantly. SLC had also identified flexibility in efficiencies and level of output to respond to funding pressures. While we are of the view that SLC is financially sustainable, there is significant challenge with regards to available additional programme spend in future years.

9.5 Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning (continued)

The introduction of the Land Reform Bill will lead to a period of uncertainty for the Commission. The SLC has undertaken a proactive programme of stakeholder engagement and has committed to continue to keep their approach under review and seek to work openly with all parties. Additionally, there will potentially be new functions that will subsequently fall under the scope of the SLC. These will bring a significant additional resource requirement that is greater than the current delivery and present a challenge of absorbing these costs within the existing budget allocation.

The accompanying Financial Memorandum to the Bill emphasises that the Commission would require additional resource to deliver the proposed functions. It states that additional grant-in-aid of roughly £1.4m would be provided and this resource would be phased out over a four-year period, as can be seen on page 12 of the Memorandum. The Commission has introduced measures to ensure that the funding provided considers and anticipates the requirements of the new functions. This is being performed as the bill progresses.

Deloitte view – Financial sustainability

SLC has set a balanced budget for 2024/25 and holds reserves of £113,000 at 31 March 2024. It is therefore financially sustainable in the short term. This large reserves balance was unplanned and within 2024/25, this will be reduced by additional programmed spend or reduction of draw down against grant-in-aid.

While core operations are financially sustainable in the medium to long term based on the MTFS, the SLC is faced with significant financial challenges with regards to additional available programme spend. The SLC have identified efficiencies and changes to delivery of services in order to adapt to funding challenges. Based upon the position that a flat cash settlement would result in, It is critical that savings plans are developed and agreed to demonstrate how available programme spend will be sustained in future years.

The Commission's span is potentially set to widen due to the pending Land Reform Bill. Whilst the SLC have established clear and informative financial planning strategies, these must remain flexible to adhere to a volatile setting. We recommend that once the Land Reform Bill has been finalised, a MTFS/LTFS is produced which considers the impacts of the Land Reform Bill.

9.6 Wider scope requirements (continued)

Best value

Requirements

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 (BV).

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 have considered whether there are organisational arrangements in place in this regard.

The duty of BV in Public Services is as follows:

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance;
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements, and to contribute to the achievement of sustainable development.
- BV characteristics have been recently regrouped to reflect the key themes which will support the development of an effective organisational context from which public services can deliver key outcomes and ultimately achieve best value:
    - Vision and Leadership
    - Governance and Accountability
    - Use of resources
    - Partnership and collaborative working
    - Working with Communities
    - Sustainability
    - Fairness and equality

Conclusions

SLC has a number of arrangements in place to secure best value. They have developed a medium term financial plan with suggested solutions to address potential funding gaps in the future, such as;

- *Staff Turnover* – flexibility in fixed term posts allowing consideration of necessity of position.
- *Efficiency Savings* – utilisation of the Scottish Government's Shared Services and the co-location with Highlands and Islands Enterprise, reducing office costs.
- *Partnership & Collaboration* – pool resources effectively and more effective joint spend on future land market monitoring.

However, significant work is still required to make the level of lasting long-term financial planning and savings plan in the future needed to ensure financial sustainability.

Deloitte view – Best Value

SLC has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. Financial sustainability remains a key risk.

10. 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 and the Commission discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the 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 the Commission, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don’t report

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

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

Deloitte LLP

Birmingham | 18 November 2024

Sector developments

15.4 Sector developments

Audit Scotland: The important role of a CFO

Background and overview

As the challenges across the public sector intensify, the role of CFOs is increasingly in the spotlight. As CIPFA highlight, with existing frameworks on governance and decision-making being pushed to their limits, with public services becoming more complex, the CFO is expected to take an active leadership role, not just within the finance function, but across their organisation, sector and public services as a whole.

When budgets tighten, Audit Scotland highlight that often corporate, or 'back office' functions face the hit, to avoid immediately impacting front line services. Against this background, it is important that in the pursuit of back-office efficiencies, the effectiveness of the financial function is not put at risk.

This is an area of interest for Audit Scotland, and in this report it is outlined that they will be taking an interest in auditor conclusions on the resourcing of the finance function as part of their consideration of the 2023/24 annual accounts.

Next steps

The full report is available at The Important Role of a CFO (Audit Scotland)

15.6 Sector developments

How collaborative leadership can create solutions to big global issues on government's future frontiers

Background and overview

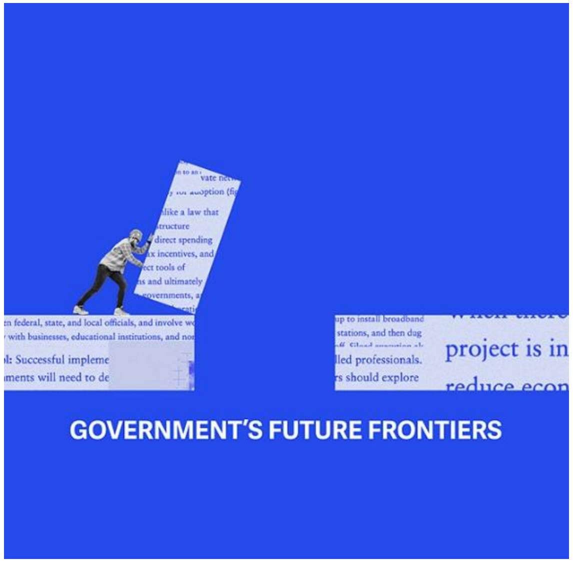
Infrastructure. Security. Health. Technology. The on-the-ground realities of homelessness. The infinite possibilities of space.

These are all big issues, bigger than any one organization can handle alone. Truly tackling the problems and opportunities inherent in these pressing societal concerns could take a concerted effort from all walks of society: Public agencies and private companies, nonprofits and academics, multinational foundations and community activists. But no matter what teams are assembled, government is expected to play a key role in constructing the scaffolding on which solutions are built.

In this publication, Deloitte speak to Bill Eggers and Don Kettl, authors of *Bridgebuilders: How Government Can Transcend Boundaries to Solve Big Problems*. They have more than 75 years of combined experience in the world of public management between them, and they have studies countless efforts to redesign government to make it more agile and responsive.

Next steps

The full publication is available at [Government's Future Frontiers (deloitte.com)]



15.7 Sector developments

Government Trends 2023

Background and overview

In the age of discontinuity, governments are moving from hierarchies to networks to enable intragovernment collaboration and nurturing collaborative public-private ecosystems to achieve shared outcomes.

This report outlines nine transformational trends that illustrate governments "bringing down walls" to deliver solutions. The trends outlined are:

- Fluid government workforce models
- Bridging the data-sharing chasm
- Tackling funding silos
- Tailored public services
- Back-office innovations improving mission performance
- Regulation that enables innovation
- Teaming up to deliver whole health
- End-to-end justice
- Security by network

Next steps

The full publication is available at Government Trends 2023 (deloitte.com)

Appendices

Action Plan

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

Recommendation	Management Response	Priority	Responsible Person	Target Date
SLC should ensure that the impact of the Land Reform Bill is built into the medium term financial strategy once a clearer picture of the obligations and changes to delivery is available.	Agreed. SLC will liaise with the bill team on realistic resource implications during passage of bill and build in scenarios to MTFS, to be adjusted as SLC role becomes clear.	High	Hamish Trench	30 September 2025

As standard practice, we would normally follow up on recommendations made in the prior year audit. However, there were no recommendations required in 2022/23, hence none to follow up on.

Audit adjustments

Corrected misstatements

The following misstatements have been identified from our audit procedure which has 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.

		Debit/(credit) SOCNE	Debit/(credit) in net assets	Debit/(credit) prior year reserves	Debit/(credit) Equity	If applicable, control deficiency identified
Accruals	[1]		2,500			N/A
Expenses	[1]	(2,500)				N/A
Total		**(2,500)**	**2,500**			

[1] For an accrual related to a research project in partnership with The University of Edinburgh which SLC is funding, SLC had accrued the full balance of £3,500 in 2023/24. However, based upon the Studentship Agreement, this was due to be paid over 4 financial years with the 2023/24 liability amounting to £1,000. Therefore, SLC had overstated their accruals balance by £2,500.

Unadjusted misstatements

There have been no unadjusted misstatements noted, following the completion of all audit procedures.

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 SLC 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 SLC 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 the Commission 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	36,850
Audit Scotland fixed charges:	
• Pooled costs	390
• Sectoral cap adjustment	(1,390)
Total expected fee	**35,850**

There are no non-audit fees.

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