

Final Report to the Audit Advisory Board, Members and Auditor General for Scotland
on the 2016/17 audit

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Director 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 for the 2017 audit.

As detailed in our plan presented in February 2017, the new Code of Audit Practice, which came into force for the 2016/17, audits sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*

- *Public reporting and audit findings*
- *Wider scope reporting*



- *Opinion on performance report, remuneration report and governance statement*

As set out in our plan, due to the relative size and scale of the functions delivered by the Scottish Human Rights Commission, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the governance statement; and
- The financial sustainability of the Commissioner and the services that it delivers over the medium to longer term.

Director introduction (continued)

The key messages in this report (continued)

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

Statutory audit

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Compliance with expenditure resource limits; and
 - Management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 9.
- One immaterial misstatement has been raised by Deloitte as a result of testing performed – no other adjustments noted.
- We issued an unmodified audit opinion.

Status of the audit

- The audit is complete.

Director introduction (continued)

The key messages in this report (continued)

Best Practice

Overall conclusion

- We have reviewed the annual report with reference to the format and content set out in the Government Financial Reporting Manual (FRoM), confirming that the Annual Report and Accounts comprise a Performance Report, an Accountability Report (which includes the Remuneration and Staff report and the Governance Statement) and the Financial Statements.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
 - the Performance Report has been prepared in accordance with the accounts direction;
 - the information given in the Governance Statement is consistent with the Financial Statements; and
 - the Governance Statement has been prepared in accordance with the accounts direction.
- We issued an unmodified opinion on the above.
- In addition to the opinion, we have read the Performance Report and Accountability Report (including the Governance Statement) and confirmed that the information contained within both is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
- Our work on the auditable parts of the Remuneration and Staff report is complete with no issues noted.

Director introduction (continued)

The key messages in this report (continued)

Adds Value

Governance Statement

The FReM requires a Governance Statement to be published with the financial statements and guidance on content is provided in the Governance Statement section of the Scottish Public Finance Manual (SPFM) which sets out the essential features. We have confirmed that the commission's Governance Statement is in compliance with this guidance and is consistent with our knowledge gained during the audit.

We are not aware of any significant events between 31 March 2017 and the date of authorisation which have not been included in the Governance Statement.

Financial Sustainability

A budget of £958k for 2016/17 was approved by the Scottish Parliamentary Corporate Body (SPCB). Additional contingency funding of £14k was approved later in the year, only £9k of which was utilised during the year, therefore a total budget of £967k was utilised in 2016/17. Total outturn for the year was £981k – once adjusted for non-cash items (e.g. depreciation), the commission's cash spend in the year was within budget. A budget of £991k has been approved for 2017/18.

The focus of management is very much on short term budgeting – medium term budgeting is restricted as the SPCB no longer approves budgets beyond one year. The commission has already been forced to make substantial efficiencies in recent years to meet savings targets set by the SPCB, and should further efficiencies be required in future there is a risk that statutory obligations of the commission may not be met to acceptable standards.

Additionally, there is a lack of any long term budgeting by management resulting from the inherent uncertainty in long-term future funding – this is common amongst similar commissions.

Pat Kenny
Audit Director

Responsibilities of the Audit Advisory Board (AAB)

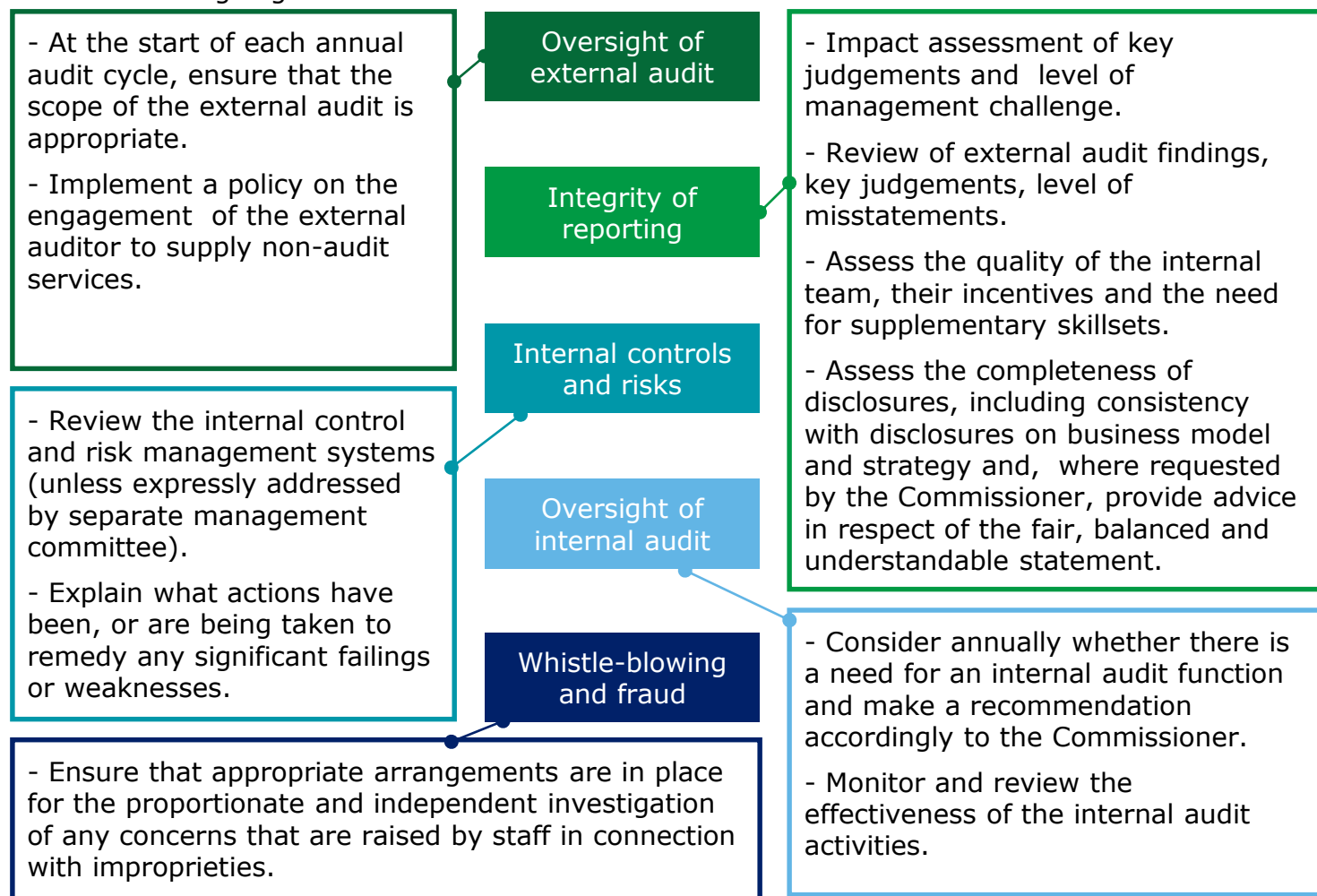
Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Audit Advisory Board:

- Clearly communicate the scope of the financial statements audit
- Provide observations arising from the audit that are significant and relevant to the Audit Advisory Board's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Audit Advisory Board with additional information to help them fulfil their broader responsibilities

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

The AAB agrees that these guidelines represent best practice in terms of the role of the Audit Committee and subject to the agreement of the Commissioner will look to fully perform the role outlined below going forward



Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the two audit dimensions, being:

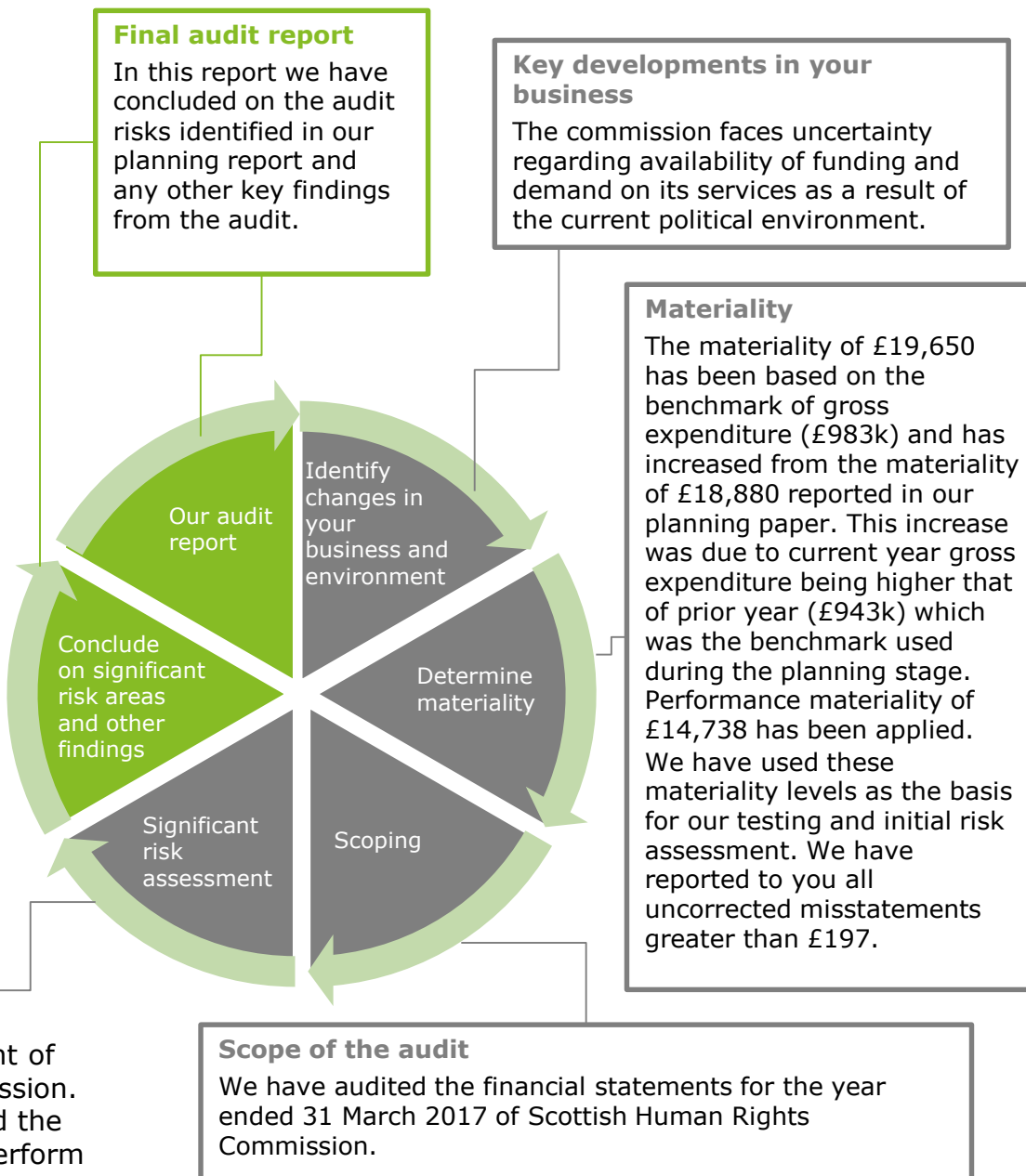
- Financial sustainability
- Governance and transparency

Significant risks

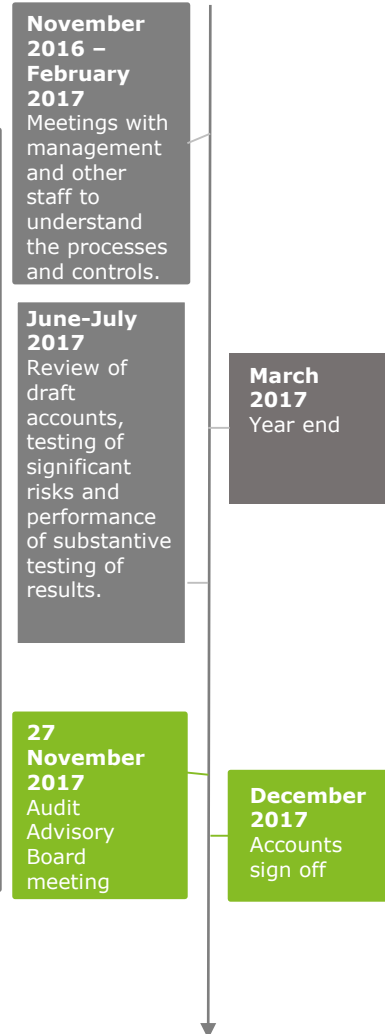
Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

Quality and Independence







We confirm we are independent of Scottish Human Rights Commission. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



Timeline 2017



Significant risks Dashboard

| Risk | Material | Fraud risk | Planned approach to controls testing | Controls testing conclusion | Consistency of judgements with Deloitte's expectations | Comments | Page no. |
|----------------------------------|---|---|--------------------------------------|-----------------------------|---|----------|----------|
| Core expenditure resource limits |  |  | D+I | Satisfactory |  | Complete | 10 |
| Management override of controls |  |  | D+I | Satisfactory |  | Complete | 11 |



Overly prudent, likely to lead to future credit      Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Core expenditure resource limits

Risk identified

Key financial duty for the Scottish Human Rights Commission is to comply with the DEL allocated by the Scottish Government to cover cash expenditure and non-cash costs such as depreciation. Given the pressures across the whole of the public sector, there is an inherent risk associated with the accuracy and completeness of recording of expenditure as there is an incentive for management to either over or under accrue expenditure at the year-end, depending on the forecast position, in order to meet the allocation.



Key judgements and our challenge of them

We must provide an opinion on regularity, to the effect that expenditure and receipts were incurred or applied in line with guidance. We have evaluated the results of our audit testing in the context of the achievement of the targets set by the Scottish Parliament.



Deloitte response

- We evaluated the design and implementation of the controls around monthly monitoring of financial performance and journal entry postings;
- We reviewed the projected run rate of expenditure throughout the year to identify the risk of over- or under-accrual at year-end;
- We assessed whether expenditure was correctly classified between revenue and capital and whether it has been incurred in accordance with Scottish Parliament's guidance;
- We performed focused cut-off testing of expenditure;
- We reviewed and challenged the assumptions made in estimating key accruals to assess completeness of recorded expenditure; and
- We obtained independent confirmation of the resource limits allocated to the commission by the Scottish Parliament.

Deloitte view

- We have concluded through the performance of our year end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified between revenue and capital.
- We confirm that the commission has performed within limits approved by the Scottish Parliament and is therefore in compliance with financial targets in the year.

Significant risks (continued)

Management override of controls

Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.



Deloitte response

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

- the commission's results throughout the year projected that cash spend would be within budget with contingency funding considered.
- senior management's remuneration is not tied to particular financial results.

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

We have 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.

We have used data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis covered every journal posted in the year. No issues noted from our testing.

Accounting estimates

We completed our retrospective review of accounting estimates and judgements with no issues noted.

Significant transactions

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

Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the body.

Your annual report

We welcome this opportunity to set out for the AAB our observations on the annual report. We are required to provide an opinion on the Remuneration Report and Staff Report, the Annual Governance Statement and whether the management commentaries are consistent with the disclosures in the accounts.

| | Management response | Deloitte response |
|---------------------------|--|---|
| The Performance Report | The report outlines the Commissioner's performance, both financial and non-financial. It outlines its vision, supported by a set of strategic themes, to deliver its strategy. It also sets out the key risks and uncertainty as set out in the Local Delivery Plan. | <p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions were noted.</p> <p>We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> |
| The Accountability Report | Management have ensured that the accountability report meets the requirements of the FReM, comprising the Governance Statement and Remuneration and Staff Report. | <p>We have assessed whether the information given in the Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions were noted.</p> <p>We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Our work on the auditable parts of the Remuneration and Staff report is complete.</p> |
| Going Concern | Management has made appropriate disclosure relating to Going Concern matters. | We have confirmed that 2017/18 funding of £991k was approved by the SPCB on 28 February 2017. We agree with management's assessment that it is appropriate for the Commissioner to prepare the financial statements on a going concern basis. |

Wider scope requirements

Governance statement disclosures

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the disclosures in the governance statement.

Areas considered



- The completeness of the disclosures in meeting the requirements of the essential features, as specified in the SPFM.
- Inconsistencies between the disclosures or between the disclosures and audit knowledge.

Deloitte view

The governance statement meets the requirements of the Scottish Public Finance Manual and no inconsistencies have been noted.

Deloitte response



Based on our audit work we have not identified for reporting any changes in governance arrangements or any issues of concern in the governance statement.

Wider scope requirements

Financial sustainability

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Areas considered



- The financial planning systems in place across the shorter and longer terms
- The arrangements to address any identified funding gaps
- The affordability and effectiveness of funding and investment decisions made

Deloitte response



We have monitored the body's actions in respect of its short, medium and longer term financial plans to assess whether financial balance can be achieved.

Short-term planning is managed through the production of reports which reflect year-to-date spend amounts compared to budget with budget variances identified and discussed with budget holders. The budget for the following financial year is approved and funding has been allocated by the SPCB.

Long-term financial plans in place are very high level due to inherent uncertainty in long-term future funding available and the short-term financial challenges faced. This is a common scenario amongst other commissions which are similar in size and structure.

Short-term

Approved funding budget of £991k has been obtained from the SPCB for 2017/18 – this is £33k (3.4%) higher than 2016/17 approved budget.

Medium-term

There is a 2016-2020 Strategic Plan in place which has been budgeted, however inherent difficulty comes from the uncertainty around future approved funding. Also, the commission cannot get approved funding beyond the next financial year, therefore the time investment in medium-term budgeting has decreased as the value has decreased. Medium-term budgets are viewed as high level 'indicative budgets'.

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 Advisory Board and the Commissioner discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) 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

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 Commissioner.

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.

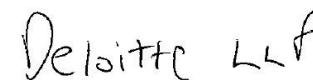
We welcome the opportunity to discuss our report with you and receive your feedback.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you in February 2017.

This report has been prepared for the Audit Advisory Board and the Commissioner, 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.



Deloitte LLP

Glasgow

December 2017

Appendices



Audit adjustments

Corrected misstatements

No corrected misstatements have been identified from our audit work performed.

Uncorrected misstatements

The year end holiday pay accrual was miscalculated as a result of manual error within the computation, resulting in a £1,013 immaterial understatement. The adjusting entry is as follows:

| | |
|---------------------------------|--------|
| Dr Staff costs | £1,013 |
| Cr Accruals and deferred income | £1,013 |

No other uncorrected misstatements have been identified from our audit work performed.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

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

We have also asked the Commissioner to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in complying with expenditure resource limits and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

Concerns:

We have identified no causes for concern from the work noted above and from our audit procedures performed.



Independence and fees

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

| | |
|----------------------------------|---|
| Independence confirmation | We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised. |
| Fees | <p>The audit fee for 2016/17 is £13,230.</p> <p>No non-audit services have been performed by Deloitte in the period.</p> |
| Non-audit services | In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. |
| Relationships | <p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p> |





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