Scottish Legal Complaints Commission

Report to the Audit Committee, Board and the Auditor General for Scotland on the 2017/18 audit

Issued on 1 October for the meeting 8 October 2018

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Introduction

The key messages in this report

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

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

I have pleasure in presenting our final report to the Audit Committee of Scottish Legal Complaints Commission for the 2018 audit. The scope of our audit was set out within our planning report presented to the Committee in April 2018.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. This includes our consideration of the Accountable Officers' duty to secure best value. As set out in our plan, due to the relative size and scale of the functions delivered by Scottish Legal Complaints 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 Commission and the services that it delivers over the medium to longer term.

Introduction (continued)

The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
    - completeness and accuracy of income; and
    - management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 8.
- No adjustments have been raised by Deloitte as a result of testing performed.
- The annual governance statement complies with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Commission.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work, we expect to issue an unmodified audit opinion.

Insights

- We have utilised data analytics tools on the journal entries posted in the year to profile the journal population which has helped us identify journals of audit interest, such as journals posted on non-business days or journals with key words. No issues were noted from this testing.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
    - finalisation of our internal quality control procedures;
    - finalisation of annual accounts;
    - receipt of signed management representation letter; and
    - our review of events since 30 June 2018.

Introduction (continued)

The key messages in this report – wider scope

The following sets out the key messages of this paper in relation to the wider scope work:

Financial sustainability

The Commission incurred a net operational cost of £8k in the year (2016/17: £194k). This was against a planned net cost of £99k based on the 2017/18 annual budget. There has been an effort in recent years, including 2017/18, to draw down on excessive reserves held. The General Fund reserve balance held at year end was £457k (2016/17: £421k). The increase in the reserves since 2016/17 was primarily as a result of pension movements of £44k during the year.

The Commission's Board approved budget for 2018/19 shows planned net operating income of £14k. However, the financial monitoring report for the first period of the year shows variances resulting in a forecasted net cost of £71k for the year. This is largely driven by decisions made at Board level regarding the restructuring of the senior management team in place as well as other personnel additions to improve core performance. This net cost would result in a further reduction in reserves carried forward. Whilst management has considered reserves carried forward from previous years to be excessive, consideration should also be given to the risk that the Commission is becoming reliant on reserves to fund annual overspends, thereby depleting them beyond the optimal level. The Commission's policy is to hold two months of operating costs as reserves, which would be approximately £521k (based on 2017/18 total operating expenditure less depreciation and amortisation). Reserves held at the end of 2017/18 were below this optimal level, and are forecasted to decrease further in 2018/19.

The Board approves an annual budget prior to the beginning of each financial year, however there are no medium or long term budgets presented at Board level. This is largely due to the volatility in demand on the Commission's services year-on-year, as well as the discretion available to the Committee with regards to setting annual levy charges. However, the ongoing senior management restructuring programme, an investment in improving core performance, and the apparent likelihood of unbudgeted use of reserves in 2018/19, leads us to recommend that a medium term plan is presented for Board approval on an annual basis. This would allow the Commission to plan its medium term use of reserves more effectively, and would allow the Board to govern the Commission's financial performance more effectively.

Governance statement

We have reviewed the annual governance statement for appropriateness of the disclosures in the governance statement or any other issues and best practice. We have found the governance statement to be in line with Government Financial Reporting Manual (FReM) requirements per the Scottish Public Finance Manual, and found no issues regarding the completeness and accuracy of disclosures.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered the following as part of our wider scope work:

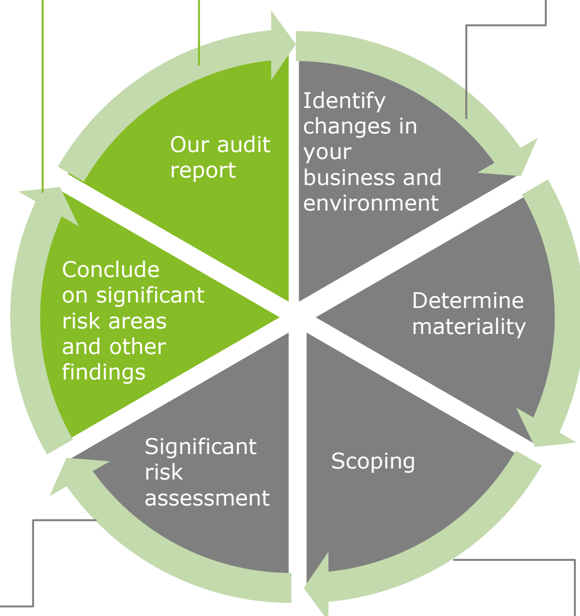
- Financial sustainability
- Governance statement

Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business

The Commission continues to face increasing demand for its services, and political pressures from levy paying bodies including the Law Society of Scotland.



Materiality

The materiality of £62k and performance materiality of £46k has been based on the benchmark of gross expenditure and is a slight decrease from what we reported in our planning paper due to updated final figures.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £3k.

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.

Quality and Independence

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

Scope of the audit

We will audit the financial statements for the year ended 31 March 2018 of Scottish Legal Complaints Commission.

Timeline 2017/18

January 2018
Meetings with management and other staff to update understanding of the processes and controls.

24 April 2018
Presented planning paper to the Audit Committee

30 June 2018
Year end

August-September 2018
Review of draft accounts, testing of significant risk and performance of substantive testing of results.

8 October 2018
Audit Committee meeting

30 October 2018
Accounts sign off

Financial statements audit

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.
Completeness and accuracy of income	✓	✓	D+I	Satisfactory	●	Satisfactory	9
Management override of controls	✓	✓	D+I	Satisfactory	●	Satisfactory	10

Overly prudent, likely to lead to future credit − − ● + + Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Risk 1 – Completeness and accuracy of income

Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The components of operating income for the SLCC are income from levies and bank interest income. The significant risk is pinpointed to the recognition of levy income, being completeness and accuracy of income from levies from the Law Society of Scotland and Faculty of Advocates

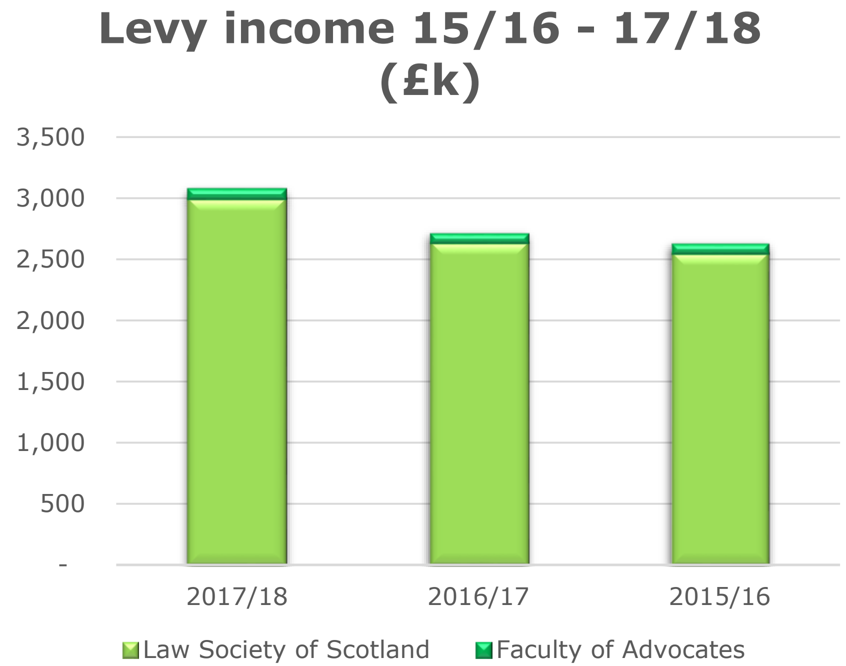
Key judgements and our challenge of them

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

Deloitte response

We have evaluated the results of our audit testing in the context of the achievement of the target set by the Scottish Government. Our work in this area included the following:

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



Deloitte view

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

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified
In accordance with ISA 240 (UK and Ireland) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Commission's controls for specific transactions.

The key judgements in the financial statements are manual journal entries. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements.

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 Commission.

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 were projecting an overspend, however this was planned by management and in line with the approved annual budget.
- senior management's remuneration was not tied to particular financial results.

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

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

Journals
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 performed design and implementation testing of the controls in place for journal approval. 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 manual journal posted in the year, and no issues were noted from our testing.

Accounting estimates
In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements has been completed with no issues noted.

Other matters
Defined benefits pension scheme

Background

The Commission participates in Lothian Pension Fund defined benefits scheme. The net pension liability is nil as at the end of 2017/18 (2016/17: £49k). This is largely the result of actuarial gains in the year arising from changes in financial assumptions following the triennial valuation performed as at 31 March 2017.

	Commission	Benchmark	Comments
Discount rate (% p.a.)	2.90	2.69	Reasonable, slightly optimistic
Retail Price Index (RPI) Inflation rate (% p.a.)	3.40	2.95	Prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.70	1.95	Prudent
Salary increase (% p.a.) (over RPI inflation)	0.7%	Commission specific	Reasonable, slightly prudent
Pension increase in payment (% p.a.)	2.30	1.95	Reasonable
Pension increase in deferment (% p.a.)	2.70	1.95	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.70	21.20	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	24.70	23.00	Reasonable

Deloitte response

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

Deloitte view

We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

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. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.

Our opinion on the financial statements

Our opinion on the financial statements is unmodified.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

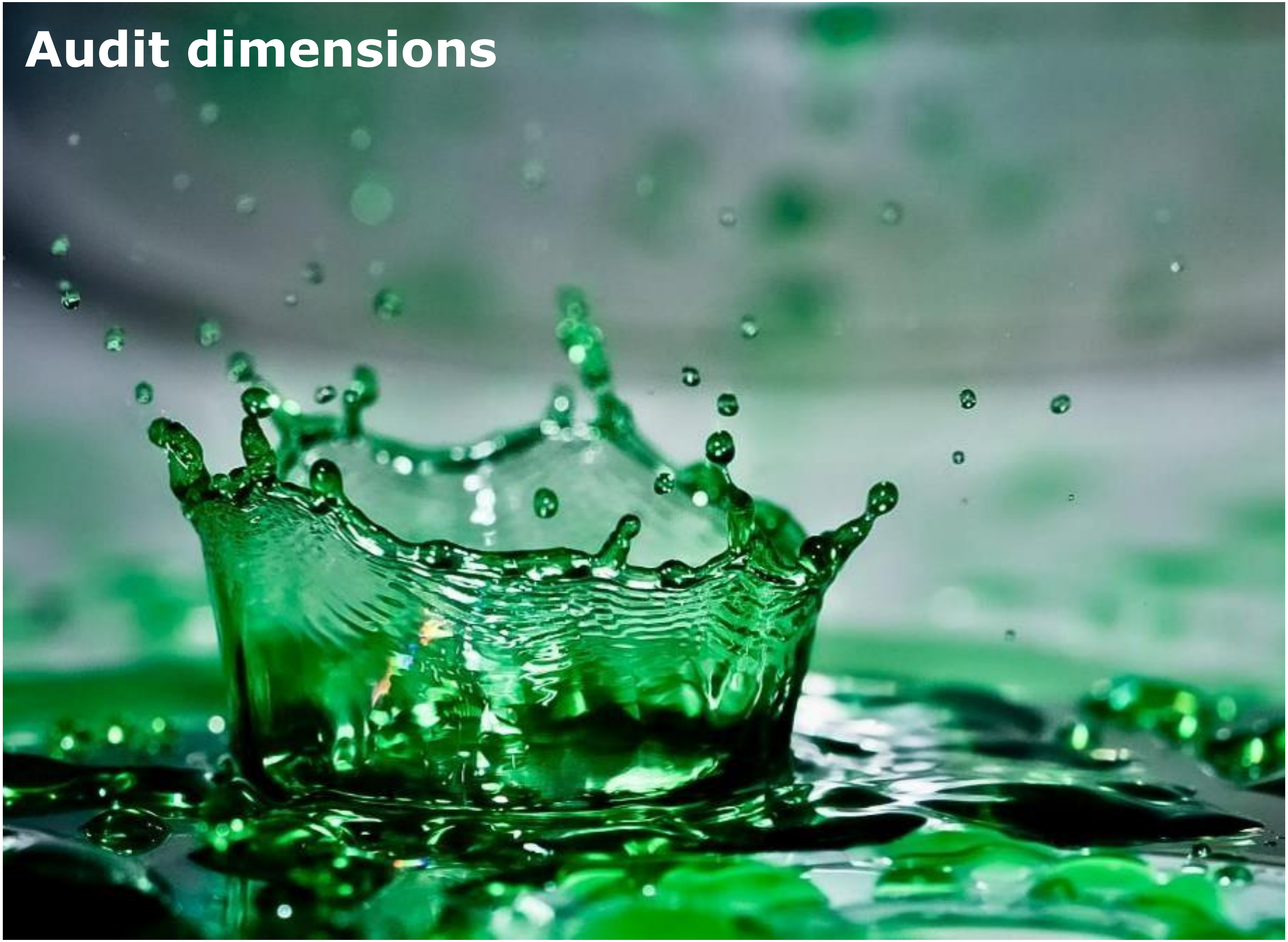
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 13.

Your annual report

We welcome this opportunity to set out for the Audit Committee our observations on the annual report. We are required to provide an opinion on the remuneration 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 Commission’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.	We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions noted. 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, parliamentary accountability report, and remuneration and staff report.	We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted. We have also read the parliamentary 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 confirmed that it has been prepared in accordance with the accounts direction.
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	We have confirmed that £3,343k of levy income has been generated for 2018/19 and that there is a planned operational surplus of £14k. Based on all procedures performed, we agree with management's assessment that it is appropriate for the Commission to prepare the financial statements on a going concern basis.

Audit dimensions



Wider scope audit work

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. As set out in our plan, due to the relative size and scale of the functions delivered by Scottish Legal Complaints 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 Commission and the services that it delivers over the medium to longer term.

Our report is structured in accordance with these two specific areas, but also covers our specific audit requirements on best value and specific risks as summarised below.

Best Value (BV)
The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specificc responsibility to ensure that arrangement have been made to secure best value.

We have considered the accountable officers' duty to secure BV as part of the governance arrangements considered as part of the wider scope audit work.

Specific risks (SR)
As set out in our Annual Audit Plan, Audit Scotland had identified a number of significant risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

SR 1 – EU Withdrawal
SR 2 – New Financial Powers
SR 3 – Ending public sector pay cap
SR 4 – Cyber security risk
SR 5 – Openness and transparency

Wider scope audit work (continued)
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.
- Workforce planning.

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.

Deloitte view

The Commission incurred a net operational cost of £8k in the year (2016/17: £194k). This was against a planned net cost of £99k based on the 2017/18 annual budget. There has been an effort in recent years, including 2017/18, to draw down on excessive reserves held. The General Fund reserve balance held at year end was £457k (2016/17: £421k). The increase in the reserves since 2016/17 was primarily as a result of pension movements of £44k during the year.

The Commission's Board approved budget for 2018/19 shows planned net operating income of £14k. However, the financial monitoring report for the first period of the year shows variances resulting in a forecasted net cost of £71k for the year. This is largely driven by decisions made at Board level regarding the restructuring of the senior management team in place as well as other personnel additions to improve core performance. This net cost would result in a further reduction in reserves carried forward. Whilst management has considered reserves carried forward from previous years to be excessive, consideration should also be given to the risk that the Commission is becoming reliant on reserves to fund annual overspends, thereby depleting them beyond the optimal level. The Commission's policy is to hold two months of operating costs as reserves, which would be approximately £521k (based on 2017/18 total operating expenditure less depreciation and amortisation). Reserves held at the end of 2017/18 were below this optimal level, and are forecasted to decrease further in 2018/19.

The Board approves an annual budget prior to the beginning of each financial year, however there are no medium or long term budgets presented at Board level. This is largely due to the volatility in demand on the Commission's services year-on-year, as well as the discretion available to the Committee with regards to setting annual levy charges. However, the ongoing senior management restructuring programme, an investment in improving core performance, and the apparent likelihood of unbudgeted use of reserves in 2018/19, leads us to recommend that a medium term plan is presented for Board approval on an annual basis. This would allow the Commission to plan its medium term use of reserves more effectively, and would allow the Board to govern the Commission's financial performance more effectively.

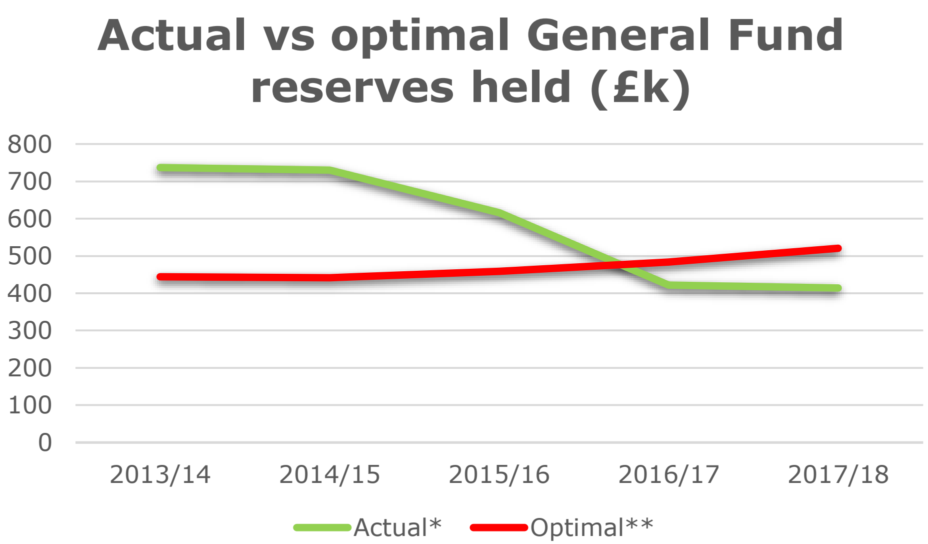
Wider scope audit work (continued)

Financial sustainability (continued)

Levy income of £3,343k has been approved for 2018/19, and the budget for 2018/19 forecasted net operating income of £14k. However, the revised forecasted position for the year now shows a net operating cost of £71k. As shown by the graph below, the Commission has drawn down significantly on reserves held over the last five years. As noted last year, these drawdowns were largely planned by management in order to reduce excessive reserves carried forward – however, 2017/18 was the last year of planned drawdowns of reserves. Whilst additional spend in 2018/19 has been Board approved, management should consider the risk that the Commission could become reliant on reserves carried forward to fund annual overspends.

We have found effective short term budgeting processes in place as well as detailed financial reporting taking place throughout the year. However, we have found an absence of formal medium to long term budgeting and reporting to the Board. The Commission has a detailed 2016-2020 Strategy in place, however this does not include any financial budgeting.

The Commission has not previously budgeted in detail beyond the short term, primarily as a result of volatility in service demand year-on-year and the discretion available to the Commission with regards to annual levy charges. However, we recommend that medium term budgets are produced for Board approval going forward to ensure that the use of reserves is being planned effectively beyond the short term, and to allow the Board to effectively govern over the Commission's financial performance. See this recommendation within our action plan at page 28.



*Actual reserves held adjusted for any IAS 19 pension adjustments during the five year period.

**Optimal reserves is equal to two months of operating costs estimated on the basis of total operating expenditure incurred in the year less depreciation and amortisation.

Wider scope audit work (continued)
Governance statement

Audit dimension

As part of the annual audit of the financial statements, we have consider 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 Scottish Public Finance Manual.
- Inconsistencies between the disclosures or between the disclosures and audit knowledge.

Deloitte response

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

Deloitte view

We have reviewed the annual governance statement for appropriateness of the disclosures in the governance statement or any other issues and best practice. We have found the governance statement to be in line with Government Financial Reporting Manual (FReM) requirements per the Scottish Public Finance Manual, and found no issues regarding the completeness and accuracy of disclosures.

Wider scope audit work (continued)

Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
EU Withdrawal	The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies. Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas: **Workforce**: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour. **Funding**: the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports. **Regulation**: the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation. There will likely be an indirect impact of EU withdrawal on SLCC due to the effect on the wider economy and legal services market. However, the Commission has determined that any direct impact on the aspects noted above should be minimal.
New financial powers	The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions. As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. Commissions such as SLCC should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.
Ending public sector pay cap	The 2018/19 budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018. The Commission is aware of the ending of the 1% public sector pay cap and has considered this as part of its annual budgets.

Wider scope audit work (continued)

Specific risks (continued)

Risk identified	Response
Cyber security risk	The Commission has performed work in recent years to improve the cyber security in place, and is aiming to achieve Cyber Essentials Plus accreditation by October 2018. No significant cyber security incidents took place during the year, and the systems in place protected against any impact of Wannacry or other high profile IT issues that occurred during the year. The Commission has the relevant skills and knowledge at Board level in order to effectively consider cyber security implications. However, given the increasingly critical nature and high profile of IT incidents as well as increasing occurrence, we would recommend that a Board member is given the designated responsibility of governing the Commission's cyber security approach. See this recommendation within our action plan at page 28.
Openness and transparency	The Commission is aware of criticism it receives regarding the rejection of some Freedom of Information requests (FOIs), however due to legal constraints it cannot share any case-specific data or information. From our audit work we are satisfied that SLCC is appropriately open and transparent in its operations and decision making.

Technical update

Technical Update

New accounting standards for 2018/19 and 2019/20

IFRS 9, Financial instruments and **IFRS 15, Revenue from contracts with customers**, have been adopted for the 2018/19 Government Financial reporting manual (FReM). These new standards are not expected to have a significant impact on commissions.

The effective date of **IFRS 16 Leases is 1 January 2019,** therefore will apply to SLCC from 2019/20, subject to both EU and HM Treasury adoption.

IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 *Leases* for lessees.

It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the lessee's obligation to make lease payments for the asset.

Potential impact on the Commission

IFRS 9 should not have any impact on the Commission given the nature of its services and current income recognition policies.

The Commission holds a material operating lease as lessee for its office premises, totalling £1,345k as at 31 March 2018. This is currently disclosed in the notes to the annual accounts but not included on the balance sheet. From 2019/20, the Commission will be required to recognise a 'right-of-use' asset and corresponding lease liability. The former will be valued at the same as the lease liability plus any incidental costs to the lease, whereas the latter will be valued at the present value of future lease payments. The lease will need to be assessed for depreciation and impairment on an annual basis.

Appendices

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) 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 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.

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 separately.

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

P. Kenny

Pat Kenny, CPFA

for and on behalf of Deloitte LLP

Glasgow

1 October 2018

Audit adjustments
Misstatements and disclosures

Corrected misstatements

The following corrected misstatements have been identified up to the date of this report:

		Debit / (credit) Income £k	Debit / (Credit) Expenditure £k	Debit / (Credit) Assets £k	Debit / (Credit) Liabilities £k
Current year misstatements					
Holiday pay accrual – classification	[1]	-	-	3.11	(3.11)
Legal costs recovered – classification	[2]	(28.30)	28.30	-	-
Total		**(28.30)**	**28.30**	**3.11**	**(3.11)**
Prior year misstatements					
Legal costs recovered – classification	[2]	(8.29)	8.29	-	-
Total		**(8.29)**	**8.29**	**-**	-

[1] The holiday pay accrual incorrectly nets off the accrued holiday pay earned and the excess holiday pay taken by employees. In line with IAS 19, any excess should be disclosed as a prepayment, rather than netted off with the accrual. The same issue resulted in a trivial prior year error.

[2] The Commission recovers some legal costs on cases brought against it. These are netted off against legal expenses incurred in the year. In line with IAS 1 and IAS 39, income and expenditure should not be netted off against each other. The Commission should show legal costs recovered separately as income, with the amount in operating expenditure being the gross expenditure amount. As this resulted in a new line being added to the Statement of Comprehensive Income and Expenditure, we have identified the equivalent adjustment for the prior year to be included as the comparative figure.

Uncorrected misstatements

No uncorrected misstatements have been identified up to the date of this report.

Disclosure misstatements

The bandings of remuneration disclosed within the Remuneration Report was incorrectly disclosed for two Board members. The banding was too low for one Board member and too high for another. These have now been corrected in line with the actual remuneration costs in the year.

Action plan
Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Incorrect classification of PP&E	There are a number of items within the IT & Telecoms Equipment category which should be classified as intangible assets. The items are held at a nil book value, therefore the overall tangible and intangible assets NBV's remain unchanged. However, it does mean that the cost and accumulated depreciation figures shown for each category of asset are incorrect as these assets have been incorrectly classified. We recommend that these assets should be reclassified to the correct asset type/grouping.	Reclassification adjustments will be processed by the target date.	Finance team	30 June 2018	Low	Tangible and intangible assets now correctly classified and reflected within 2017/18 accounts. Satisfactory. *Implemented*
Overstated intangibles balance	A number of items shown with a 'cost' and 'accumulated depreciation' balance are no longer in use. Whilst the overall impact on the NBV is nil, the note to the accounts are overstated. The FAR should be reviewed to identify any assets that are no longer held, and those items removed from both the cost and accumulated depreciation accounts.	Reclassification adjustments will be processed by the target date.	Finance team	30 June 2018	Low	Management performed an exercise during the year to identify any assets that are no longer in use and should be backed out of figures per the accounts. We have reviewed the adjustments posted. Satisfactory. *Implemented*

Action plan (continued)

Follow up of 2016/17 recommendations (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Tangible assets cannot be physically verified	From our testing, we note that a number of tangible assets recorded on the fixed asset register are no longer in use and cannot be physically verified. Whilst these are held at a nil NBV (and therefore the overall impact on the accounts is nil), it does mean that the note to the accounts shows both the cost and accumulated depreciation balances as overstated. The FAR should be updated to reflect on those assets which are still in use.	Assets no longer held have been identified and adjustments will be made by the target date. The Fixed Asset Register will be updated as required by the target date.	Finance team	30 June 2018	Low	Management performed an exercise during the year to identify any assets that are no longer in use and should be backed out of figures per the accounts. We have reviewed the adjustments posted. Satisfactory. *Implemented*

Action plan (continued)

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Medium term financial planning	We recommend that the Commission puts forward a medium term financial plan to be approved by the Board on an annual basis. This would allow the Commission to effectively plan and manage its funds beyond the short term, and would improve the governance tools available to the Board (see page 17).	We have always prepared three year projections and highlighted the impact on reserves as part of budget preparation. These projections have tended to be used for SMT purposes rather than being shared with Board. As part of the budget preparation for 2019/20, which has just begun, we shall share with the Board expenditure and required income projections for a minimum of a further two years, together with the resultant impact upon both cash and general reserves.	Neil Stevenson (Chief Executive) / John Ferrie (Finance & Corporate Services Manager)	31 December 2018	High
Cyber security responsibility at Board level	Given the increasing occurrence of high profile cyber security incidents, and the impact such incidents can have on an organisation and its stakeholders, we recommend that a Board member is given the responsibility of governing the Commission's approach to cyber security (see page 20).	Cyber Security has always been high on the Commission's agenda and is an ever-present in our Risk Register. Cyber Security is also a fixed item on our Audit Committee agenda and the Commission is currently going through the accreditation process for the Scottish Government sponsored Cyber Essentials programme.	Dr. Michelle Hynd (Chair of the Audit Committee)	31 December 2018	Medium

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 Board 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 Board 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 completeness and accuracy of income recognised and management override of controls as key audit risks for your organisation.

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

In addition, we have reviewed the work performed by internal audit and have reviewed management's own procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Audit Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.

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	The audit fee for 2017/18 is £12,170 as detailed in our Audit Plan. No non-audit fees have been charged by Deloitte in the period.
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	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Events and publications

Our publications and insights to support the Board

Publications

The State of the State 2017-18
Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html

Sharing our informed perspective
We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

Perspectives: Do you have a digital mindset?
Accelerating health and care integration
Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html

Article: Public sector transformation
Five lessons from the private sector
An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html