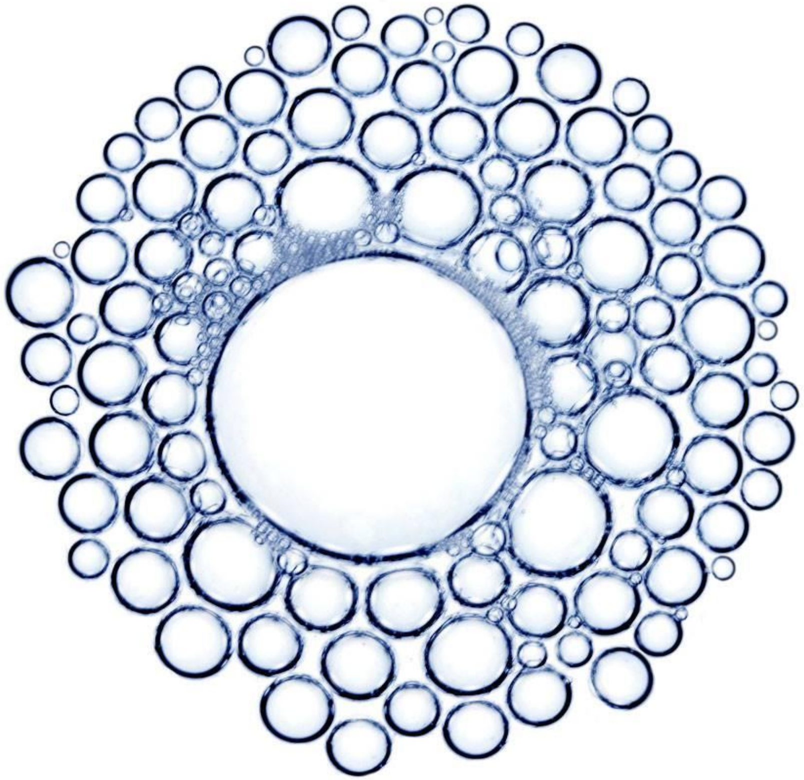
Deloitte.

scottish legal complaints commission slcc



Scottish Legal Complaints Commission

Report to the Audit Committee, Board and the Auditor General for Scotland on the 2018/19 audit

Issued 1 October 2019 for the Audit Committee meeting on 7 October 2019

Contents

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 Scottish Legal Complaints Commission (the Commission) for the 2018/19 audit. The scope of our audit was set out within our planning report discussed at the Audit Committee in April 2019.

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 the 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 (continued)

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

Conclusions from our testing

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

The performance report and accountability report comply 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 and staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8. The Commission had an overspend in the 2018/19 financial year of £63,803 however £69,000 related to actuarial movement of the pension scheme.

Our misstatements identified above our threshold of £3,500 have been disclosed on page 26.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Receipt of signed management representation letter; and
- Our review of events since 30 June 2019.

Conclusions on audit dimensions

As set out on page 3, our audit work was restricted to concluding on the appropriateness of the disclosures in the governance statement and the financial sustainability of the Commission.

We have, however, considered the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers and increased focus on openness and transparency.

Our overall conclusion on the audit dimensions is summarised on page 5.

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Governance statement

The disclosures are appropriate and address the minimum requirements of the Scottish Public Finance Manual (SPFM).

Financial sustainability

The Commission managed a balanced financial position (excluding pension actuarial movement) in 2018/19. A balanced budget has been set for 2019/20 and robust financial reporting procedures are in place.

The Commission performs financial budgeting for multiple years but it does not have a financial strategy in place. It does, however, have a 4 year Strategic Plan, which includes a high level assessment of the resources required. The current Strategic Plan runs from 2016-2020 and we understand that the next plan is being developed in order to be in place for 2020. It is important that the Commission consider the potential implications of the Scottish Government's Medium Term Financial Strategy in setting future medium to longer term plans.

As the Commission is undergoing restructuring activity there should be a workforce plan which links to the new staff structure and succession planning for key roles.

Specific risks

The Commission is closely monitoring developments in relation to EU withdrawal, taking account of advice and guidance from the Scottish Government and the Information Commission's Officer and engaging with stakeholder groups. We are therefore satisfied that the Commission is sufficiently prepared.

The Commission is appropriately open and transparent in its operations and decision making and applies a number of areas of good practice.

Our detailed findings and conclusions are included on pages 13 to 19 of this report.

Next steps

An agreed Action Plan is included at page 28 of this report, including a follow-up on progress with actions from previous years. We will consider progress with the agreed action as part of our 2019/20 audit.

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 shared our informed perspectives from our work across the wider public sector on page 32 of this report.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have restricted our wider scope audit work to reviewing:

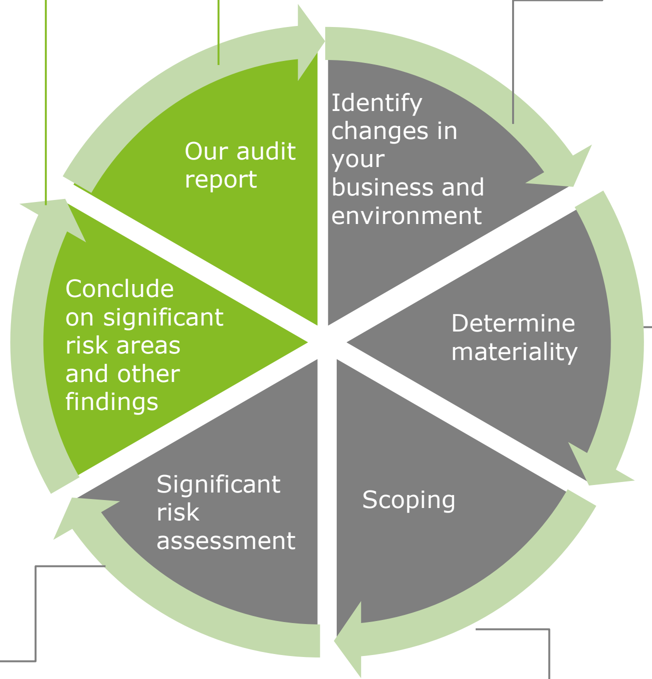
- The governance statement
- Financial sustainability

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

As noted in our planning report, the Commission continues to face significant financial pressures, with a risk of reduced funding in future years.



Materiality

The materiality of £70,500 (2017/18: £62,000) and performance materiality of £52,875 (2017/18: £46,000) has been based on the benchmark of gross expenditure and is a slight increase 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 £3,500 (2017/18: £3,000).

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 the 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 have audited the financial statements for the year ended 30 June 2019 of the Commission.

Timeline 2018/19

January 2019
Meetings with management and other staff to update understanding of the processes and controls.

15 April 2019
Presented planning paper to the Audit Committee

30 June 2019
Year end

August 2019
Review of draft accounts, testing of significant risk and performance of substantive testing of results.

4 October 2019
Audit Committee meeting

4 October 2019
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 Commission 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.

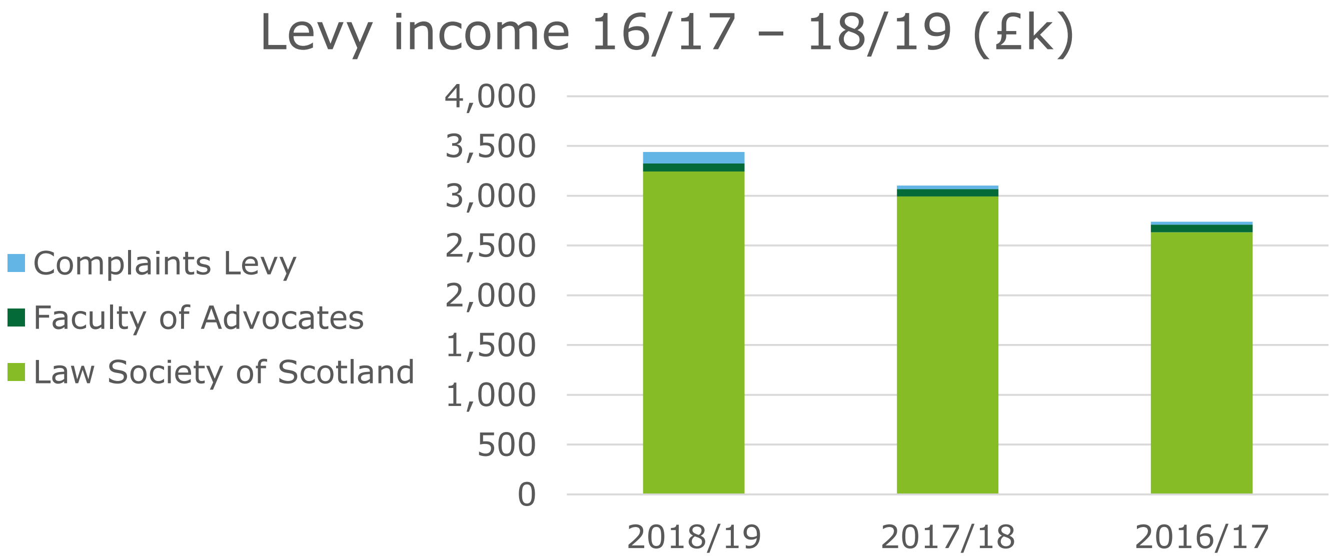
Deloitte response

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::

- Obtain an understanding of the design and implementation of the key controls in place in relation to recording operating income;
- Testing of levy income recorded during the year to confirm accuracy
- Sample testing complaints levy income, tracing receipts of the ledger, to confirm completeness;
- Sample testing complaints levy income recorded during the year to confirm accuracy; and
- Cut-off procedures to test the accurate 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) 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 controls for specific transactions.

Key judgements

The key judgements in the financial statements includes those which we have selected to be significant audit risks around working within expenditure resource limits. This is inherently an area in which management has the potential to use their judgement to influence the financial statements.

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 slight overspends. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and
- 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.

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.

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates

We reviewed the financial statements for accounting estimates which could include biases that could result in material misstatements due to fraud.

We considered any adjustments required for the transition to the new standards (IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instruments), focusing on the areas of greatest judgement and value.

No issues have been identified from our testing.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

We agree with management's position that the new accounting standards do not have a material impact for the Commission.

Other matters

Defined benefits pension scheme

Background
The Commissioner participates in the Lothian Pension Fund defined benefits scheme.

The net pension liability is £79k at the end of 2018/19 (2017/18: nil) primarily as a result of changes arising from a slight decrease in the discount rates and a slight increase in the salary increase rate applied.

	Commission	Benchmark	Comments
Discount rate (% p.a.)	2.40	2.31	Reasonable, slightly optimistic
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.40	2.07	Prudent
Salary increase (% p.a.) (over CPI inflation)	1.7	Commission specific	Prudent
Pension increase in payment (% p.a.)	2.40	2.14	Reasonable, slightly prudent
Pension increase in deferment (% p.a.)	2.40	2.07	Reasonable, slightly prudent
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 and lies towards the middle of the range of assumptions 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.

Our opinion on the financial statements

Based on our audit work completed to date, we anticipate issuing an unmodified opinion on the financial statements.

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.

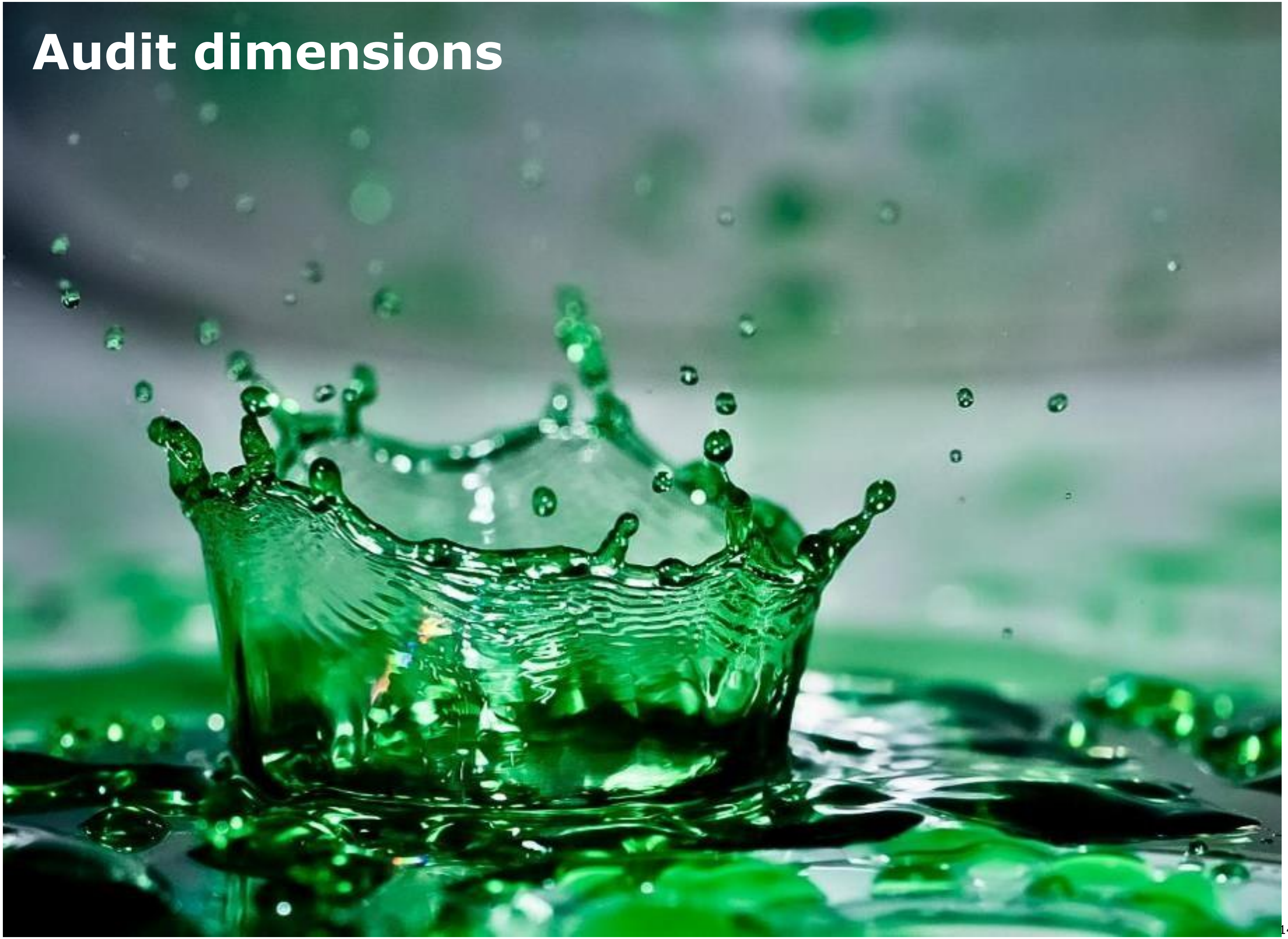
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 13.

Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are 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 uncertainty as set out in the Local Delivery Plan (LDP).	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. We are pleased to note that management has taken on board our feedback made in 2017/18 and considered the level of detail and format of the report to ensure that the main messages are not lost.
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 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 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 £3,704k of levy income has been generated for 2019/20 and that there is a planned operational surplus of £2k . 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



Audit dimensions

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 areas. As set out in our plan, due to the relative size and scale of the functions delivered by the 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 Board 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.

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 specific responsibility to ensure that arrangements 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 audit dimensions work.

Specific risks (SR)
As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific 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 – Changing landscape for public financial management
SR 3 – Dependency on key suppliers
SR 4 – Openness and transparency

Governance statement
Overview

The FReM requires a ***governance statement*** to be published with the financial statements. Guidance on content is provided in the governance statements section of the Scottish Public Finance Manual (SPFM) which sets out the essential features.

As set out in our audit plan, there is a risk that the governance statement is inconsistent with the financial statements and is not in accordance with the SPFM. There is also a risk that the statement is inconsistent with our knowledge as auditors of the Board or is potentially misleading.

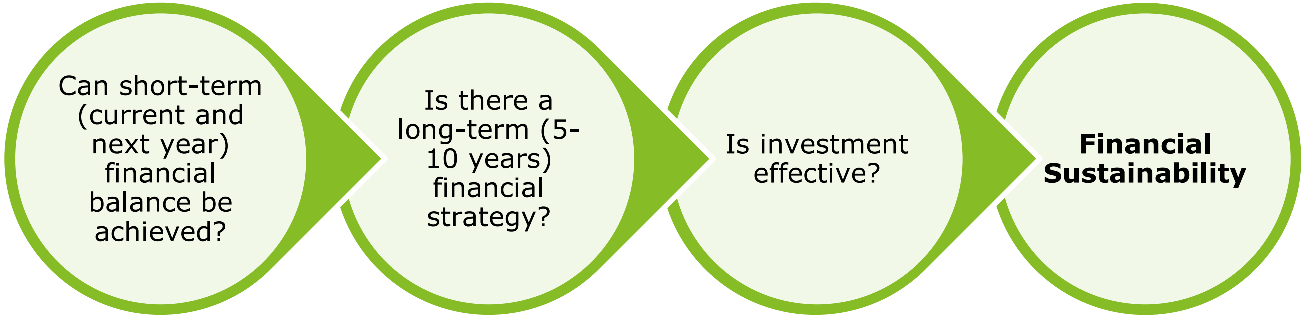
Deloitte View

We have reviewed the draft governance statement for consistency with the financial statements and our knowledge gained during the audit. No inconsistencies have been noted.

We have also reviewed the draft governance statement to assess compliance with the SPFM and have confirmed that it follows the format and content of the SPFM, incorporating all essential features.

Financial sustainability
Overview

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



Audit risks
Within our audit plan we identified a number of risks as follows:
- There is a risk that the Commission does not have robust financial plans in place.
- The Commission's long term financial planning is inconsistent with the Scottish Governments five year plan.

Our conclusions on the above risks are set out on the following page.

Financial sustainability (continued)

Standards of conduct for prevention and detection of fraud and error

We have reviewed the Commission's arrangements for the prevention and detection of fraud and irregularities. Overall we found the arrangements to be operating effectively.

Medium term financial planning

The Commission is in a financially sustainable position. A body is considered to be financially sustainable if they: (i) have adequate reserves, (ii) are spending within budget and (iii) have credible medium term plans in place.

The commission is currently not achieving the planned reserves level in line with the reserves policy. While we appreciate that the Scottish government would ensure that Commission could not be wound up it is the organisations responsibility to ensure the entity continues as a going concern and holds sufficient reserves continue.

The Commission is required to have a four year Strategic Plan laid before Parliament setting out how the organisation will perform it's functions during this period. The 2016-2020 Strategic Plan was laid before the Scottish Parliament in March 2016. This incorporates, at a high level, indicative funding requirements for the four year period. We understand that the next plan is being developed in order to be in place for 2020.

Each year, the Commission also publishes an annual Operational Plan which sets out the specific programme of activity it will deliver over the year in pursuit of the key strategic themes set out in the four year plan.

The Commission's Strategy Plan includes a specific section on the National Outcomes. The Operational Plan outcomes and the budget are not linked to the national outcomes. We would recommend that the spend in the year is aligned to the outcomes detailed in the Operational Plan which should link to the national outcomes.

The SLCC has narrowly defined statutory remit it must deliver. While the Commission references the National Outcomes in its public reporting (including its Annual Report), this is only to the extent of listing the outcomes. Going forward, the Commission needs to set out how it has contributed to the National Outcomes in each year, as it is not clear to the reader how performance against the Commission's KPIs link with the Strategic Plan outcomes and the National Outcomes. By reviewing the KPIs, readers should be able to easily understand whether the Commission is on track to achieve its Strategic Plan outcomes and to what extent it has contributed to the National Outcomes. The Commission does not have any detailed financial strategy in place beyond its one year budget. This results in a number of issues, such as it not being clear how the Commission intends to allocate resources to deliver its Strategic Plan over the life of the plan. The organisation does not have a workforce plan in place.

The Commission needs to develop a Medium-Term Financial Plan covering a 3-5 year period, being updated annually. The following approach is best practice:

1. The plan should cover a period of three to five years and be updated annually.

2. The plan should include scenarios - a "best case" and "worst case" of reasonable possibilities, with the case demonstrated in the plan being the mid-point of these.

3. The plan should not be "made" to balance. If there is a funding gap, the plan should quantify how much this is on an annual basis, Future budgets and annual savings plans to close the funding gap should then be linked to the MTFP.

4. There should be clear links between the MTFP, the Corporate Plan and a Workforce Plan, demonstrating how the Commission plans to use its resources over the medium term to achieve its objectives and deliver improved outcomes as set out in its Corporate Plan.

5. The MTFP should take account of the Scottish Government Medium-Term Financial Strategy, where relevant and the assumptions set out therein, including how it intends to use its resources to deliver it's statutory functions, aligned where possible the National Performance Framework and to the key themes of public service reform.

Financial sustainability (continued)

Workforce planning

There is no workforce plan for the organisation, therefore this needs to be developed, as highlighted in Best Value audit reports carried out by Audit Scotland across the public sector. This would provide steps to address vacancies in key posts that are not appropriately prioritised, training is not planned, roles and responsibilities of staff are not regularly considered to ensure they're still appropriate, and there is a lack of any real workforce development strategy.

This plan needs to consider the needs of the organisation and those of its workforce, ensuring it is sufficient to meet its legal obligations and objectives. Workforce planning provides a basis for understanding workforce behaviours, considering areas such as recruitment, promotion and turnover, as well as looking at causes of absenteeism and changes in productivity. Understanding these issues can allow the organisation to plan appropriately. Workforce planning is an ongoing process, and should be considered for appropriateness by the SMT on an annual basis.

Audit Scotland has produced reports on workforce planning in the NHS in Scotland, identifying key areas which need to be considered for effective workforce planning.

Although not directly applicable, the overarching principles here should be used to guide the Commission's office workforce planning.

During the course of this year the SLCC has established a Remuneration Committee and started work on a workforce plan, this is expected to be completed by August 2020.

Succession planning

The current small size of the SLCC, and the dependency on one dominant job role (the 'Case Investigator') is a challenge in creating defined career paths, the skills in the dominant role are very different to those needed in management roles. Recruitment to Case Investigator role has been challenging, in the competitive Edinburgh market.

Succession planning, and ways to attract and retain Case Investigators in particular, need to be included in the workforce plan developed by the organisation. This needs to include clear promotion opportunities within the organisation, effective delegation to staff, and tailored training plans to develop skills within staff to allow potential development to more senior roles.

Deloitte View – Financial sustainability

The Commission's office has achieved short term financial balance (excluding pensions actuarial movement) in 2018/19. A balanced budget has been set for 2019/20 and robust financial reporting procedures are in place.

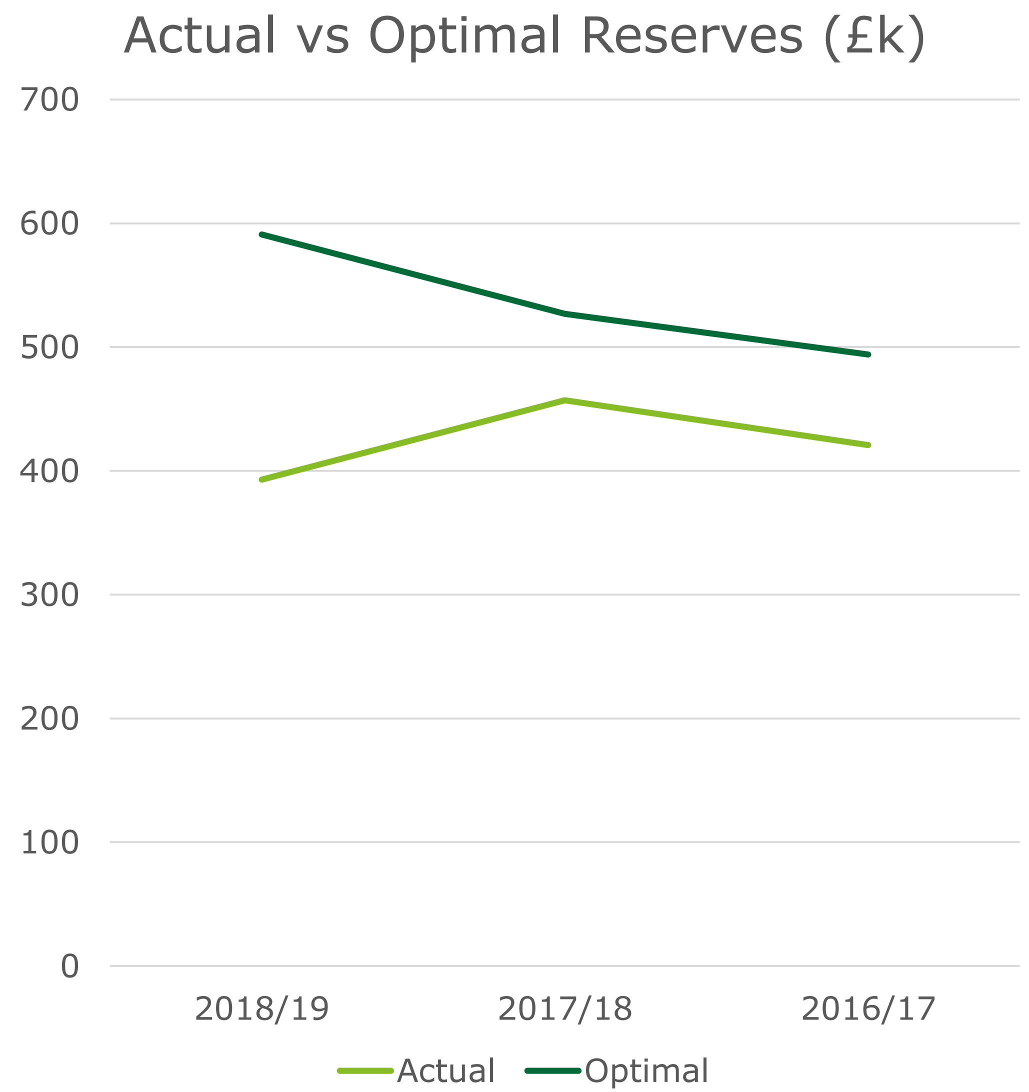
In common with other similar bodies, the Commission's office only confirms it's funding from the Law Society Scotland and the Faculty of Advocates for one year, therefore has not prepared a medium or long term financial strategy. It does, however, have a 4 year Strategic Plan, which includes a high level assessment of the resources required and prepare indicative budgets for 2 years following the budget bid. It is important that the Commission's office consider the potential implications of the Scottish Government's Medium Term Financial Strategy in setting future medium to longer term plans.

Financial sustainability (continued)

Deloitte View – Financial sustainability

The Commission incurred a net operational income of £5k in the year (2017/18: Cost £8k). This was against a planned net cost of £20k based on the 2018/19 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 £393k (2017/18: £457k). The Commission's Board approved budget for 2018/19 shows planned net operating income of £2k. However, the financial monitoring report for the first period of the year shows the use of temporary staff which was not budgeted in the original budget. 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 £591k (based on 2018/19 total operating expenditure).

Reserves held at the end of 2018/19 were below this optimal level. 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, given the possibility of unbudgeted use of reserves in 2019/20, we 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.



* Optimal reserves is equal to 2 months of the prior year expenditure

Other specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work the Commission has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	The Commission has appropriately assessed and planned for the potential impact of EU withdrawal. In particular: • ***People and skills*** - the Commission is not aware of any direct implications of EU withdrawal with regard to staff and workforce planning. • ***Finance*** – the Commission do not receive any funding from the EU therefore no risk identified. • ***Rules and regulations –*** the Commission is not aware of any direct implications as a result of changes to trade and customs which would affect their supply chains and the cost and availability of products. The Commission is closely monitoring developments, engaging with the SPCB, taking account of advice and guidance from the Scottish Government and the Information Commission's Officer and engaging with stakeholder groups. We are therefore satisfied that the Commission is sufficiently prepared.
Changing landscape for public financial management	As part of our audit work on financial sustainability (see page 17) we have considered how the Commission has reviewed the potential implications of the Scottish Government's Medium Term Financial Strategy for its own long term planning.	As noted on page 17, the Commission does not currently prepare a medium or longer term financial plan. We recommend that it considers the implications of the Scottish Government's Medium Term Financial Strategy for its long term planning in any future medium to long term plans.
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed and performed an analysis to identify if there were any risks of dependency on key suppliers.	No areas of risk identified from our audit work.

Other specific risks (Continued)

Risk	Areas considered	Conclusion
Openness and transparency	We have considered the Commission's approach to openness and transparency as part of our audit work on governance and transparency (see page 19).	From our audit work, we are satisfied that the Commission is appropriately open and transparent in its operations and decision making. However, no improvements or changes to processes which would benefit openness and transparency have been noted in the year. On an annual basis, the Commission should carry out a review of how open and transparent it is, influenced by the views of the Board, staff and the wider community. Through this review, the Commission should identify improvements which can be made in the coming year, demonstrating a commitment to continuous improvement, ensuring it is always striving for more and keeping up with public expectations.

Other specific risks (continued)

Openness and transparency

Openness and transparency

Taking an ***open approach*** to business can support good governance.

It is about behaviours, centred on a preference for sharing information about how and why decisions are made. In the public sector, this is based on the recognition that public services are delivered for the public good using public money.

Transparency can be seen as a process. Access to information provides insight into decision-making and how the organisation work. Transparency in the public sector is supported by statutory requirements and regulations. These are minimum requirements and it is for individual organisations to decide whether the content and volume (in terms of quantity and amount of detail) of the information that they make available contributes to increased understanding. There are judgements to be made, and an approach designed to increase transparency rather than comply with minimum standards is more likely to satisfied the good governance test.

Openness and transparency are individually important, and working well together they help demonstrate that public organisations are acting in the public interest.

We have considered the Commission's approach to openness and transparency, how good its information is; and its commitment to improving openness and transparency and concluded:

- Openness and transparency are at the core values of the Commission as freedom of information brings openness and transparency to public authorities.
- The Commission has a positive attitude to openness and transparency and places a high level of importance on both informing and consulting staff.
- Corporate information, including strategic and operational plans, senior management team minutes and related committee reports, KPIs and financial performance, is available through the Commission website.

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 Commission discharge its 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 Commission.

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 again in this report.

This report has been prepared for the Commission 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.

Pat Kenny

for and on behalf of Deloitte LLP

Glasgow

1 October 2019

Audit adjustments

Summary of corrected and uncorrected misstatements and disclosure deficiencies

Corrected misstatements

		Debit/ (credit) income £	Debit/ (credit) Expenditure £	Debit/ (credit) prior year retained earnings £m	Debit/ (credit) in revenue £m
Misstatements identified in current year					
Secondment income gross up	*[1]*	(26,995)	26,995	-	-
Total		**(26,995)**	**26,995**		

[1] The Commission has recharged some staff costs for a part-time secondment for a member of staff. This income has incorrectly been netted off the staff costs line instead of grossing this up and recognising the income generated. In line with IAS 1 and IAS 39, income and expenditure should not be netted off against each other. The Commission should show staff costs recovered separately as income, with the amount in operating expenditure being the gross expenditure amount.

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

Uncorrected misstatements

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

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 to date.

Audit adjustments (continued)

Summary of Commission corrected and uncorrected misstatements and disclosure deficiencies (continued)

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable the Audit Committee to evaluate the impact of those matters on the financial statements. We have identified the following corrected disclosure misstatements:

Note	Description
Remuneration Report	For 4 Board members the remuneration bandings were incorrectly disclosed
SOCIE	The disclosure in relation to both the actuarial movement and the recognition of the prior year pension surplus was combined in one financial statement line. As disclosed in the note to the accounts these movements should be split for transparency

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial sustainability	We recommend that the commissioner considers the implications of the Scottish Government's Medium Term Financial Strategy for its own finances in any future medium to long term plans.	As a first step, a three year projection of income, costs and reserves was presented to the Board as part of the 19/20 financial planning cycle, and informed the public consultation in January 2019. The development of a new four year strategy is currently underway, due for consultation in January 2020, and this recommendation will be further acted upon as part of that process, with four year projections and planning developed alongside the strategy.	Director of Business Performance	31/03/2020	Medium

Action plan (continued)
Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual report and are pleased to note that all of the recommendations made have been fully implemented as summarised below.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2018/19 Update
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	As a first step, a three year projection of income, costs and reserves was presented to the Board as part of the 19/20 financial planning cycle, and informed the public consultation in January 2019. The development of a new four year strategy is currently underway, due for consultation in January 2020, and this recommendation will be further acted upon as part of that process, with four year projections and planning developed alongside the strategy.
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.	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	Complete: The SLCC have now achieved the cyber essential accreditation, and have appointed a Board member, Dr Michelle Hynd, as formal Board lead on cybersecurity.

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 Commission 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 all information in relation to allegations of fraud, or suspected fraud.

We have also asked the Commission 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 working within expenditure resource limits 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 management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Audit Committee on the outcomes of internal audit work.

Concerns:

No concerns have been identified regarding 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 that we comply with FRC 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 2018/19, in line with the fee range provided by Audit Scotland, is £16,290 as broken down below:

	£
Auditor remuneration	9,550
Audit Scotland fixed charges:	
Pooled costs	2,300
Audit support costs	570
Total fee	**12,420**

No non-audit fees have been charged by Deloitte in the period.

Non-audit services

In our opinion there are no inconsistencies between FRC 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 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.

Deloitte perspectives

Talking Public Sector: Our podcast series on government and public services

Our podcast explores the big challenges facing the public sector, how citizens want the public services to be run and what the future holds by drawing on expert opinion and exclusive research. Aimed at anyone who works in or with the public sector, this podcast brings together leaders from government and the public services, industry experts and commentators to provide an insights on the big issues facing public bodies in the UK and around the world.

Listen and subscribe to Talking Public Sector:

https://www2.deloitte.com/uk/en/pages/public-sector/articles/talking-public-sector.html

Tech Trend 2019: A Government and Public Services Perspective

Our recently published 10th edition of the Tech Trends report reflects on a decade of disruptive change and demystifies the future of digital transformation. The story of technology trends is inseparable from the story of the public sector.

Technology can help make government more effective by protecting and maintaining infrastructure, creating more personalised and secure citizen interactions, or automating tasks so workers can focus on more value-added jobs.

As leaders work to reshape their organisations and realise these possibilities, they rely on fresh, relevant insights. We are delighted to share our perspective which provides a UK Government and Public Services lens on Deloitte's *Technology Trends 2019: Beyond the digital frontier.*

https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-tech-trends.html

Digital government: It's all about the people *a view from Government and Public Sector Lead Partner, Rebecca George*

Deloitte has published our third Digital Disruption Index. Based on a survey of the UK's most senior digital leaders from both private and public sectors, the index explores levels of digital maturity in their organisations. The results reinforce my belief that the defining factor in getting digital right is not the technology – which of course needs to deliver – but is people: the people who lead digital transformation and the people with the skills to make it happen.

Read Rebecca's full view at:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/digital-government-all-about-people.html

The Digital Disruption Index is available online:
https://www2.deloitte.com/content/campaigns/uk/digital-disruption/digital-disruption/digital-disruption-index.html

One of the key insights is around Artificial Intelligence (AI) which is increasingly a strategic priority. After Cloud, Cyber-security and Data analytics – three foundational digital pillars – respondents to our survey rated AI as the most important technology to their digital strategy.

The use of advanced data science, whether explicitly AI or a combination of AI, Robotic & cognitive automation (RCA) and Data analytics, is at the centre of much current debate about ethics and the societal impact of digital technology. A significant number of senior leaders seem unaware of these ethical considerations. We believe that what is unethical in the real world is unethical in the digital world, and we explore how organisations are able to make AI decision-making as transparent as human decision-making.

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