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HISTORIC ENVIRONMENT SCOTLAND

Historic Environment Scotland

Planning report to the Audit, Risk and Assurance Committee on the audit for the year ending 31 March 2020

Issued 24 January for the meeting on 7 February 2019

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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 draft planning report to the Audit, Risk and Assurance Committee ("the Committee") of Historic Environment Scotland ("HES") for the year ending 31 March 2020 audit. I would like to draw your attention to the key messages of this audit plan:

Audit Plan
We have updated our understanding of HES including discussion with management and review of relevant documentation from across HES.
Based on these procedures, we have developed this plan in collaboration with HES to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to HES.

Key Risks
We have taken an initial view as to the significant audit risks HES faces. These are presented as a summary dashboard on page 11.

Audit Dimensions
The Code of Audit Practice sets our four audit dimensions which set a common framework for all public sector audits in Scotland. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the HES' key priorities in risks as well as any risks identified by Audit Scotland. The following specific risks have been identified:

- ***Financial sustainability*** – There is a risk that the plans for efficiency and financial sustainability are not sufficiently robust to allow the benefits to be realised. We will assess the progress being made in implementing the agreed plans, including the work being done as part of the CMIS project.
- ***Financial management*** – While we have not identified any specific risks in this area during our audit planning, we will continue to review the financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored.
- ***Governance and transparency*** – While we have not identified any specific risks in this area during our audit planning, we will continue to review the work of the Board and the Audit, Risk and Assurance Committee.
- ***Value for money*** – While we have not identified any specific risks in this area during our audit planning, we will continue to review the HES' performance against its Corporate Plan, the Board's reporting and monitoring of these and the actions taken to improve the performance.

Introduction (continued)
The key messages in this report (continued)

Audit Dimensions (continued)

Our audit work on the four audit dimensions incorporates the specific area of focus highlighted by Audit Scotland in relation to fraud and corruption in the procurement function. Should any further risks emerge during the year, we will provide an update to the Audit, Risk and Assurance Committee.

Our Commitment to Quality
We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Adding value
Our aim is to add value to HES through our audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help HES promote improved standards of governance, better management and decision making and more effective use of resources.

We have also shared our recent research, informed perspectives and best practice from our work across the wider public sector on pages 26 to 28 of this paper.

Pat Kenny
Audit director

Responsibilities of the Audit, Risk and Assurance Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit, Risk and Assurance Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

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

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by HES, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate board risk committee).
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your Board and your strategy

Identify changes in your body and environment

HES continues to face significant financial pressures, with a risk of insufficient funding in future years. As at 31 December 2019 HES is forecasting a breakeven position.

Scoping

Our scope is in line with the Code of Audit Practice issued by the Audit Scotland.

More detail is given on pages 9 and 10.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report.

Determine materiality

We will use a materiality level of £2.111m (2018/19: £2.239m) in planning our audit. This is based on forecasted gross expenditure, as the entity is required to budget for a breakeven position, consistent with the basis used in the prior year. We will report to you any misstatements above £105k (2018/19: £111k).

Further details on our materiality considerations are provided on page 8.

Significant risk assessment

We have identified significant audit risks in relation to HES. More detail is given on pages 12 to 13. The only change from the previous year is the downgrading of the risk regarding the recognition of restricted funds. This is no longer considered a significant risk due to the balance not being material and no issues have arisen during testing in previous years.

Quality and Independence

We confirm all Deloitte network firms are independent of Historic Environment Scotland. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Continuous communication and reporting
Planned timing of the audit

Planning

- Planning meetings to inform risk assessment and identify judgemental accounting issues.
- Update understanding of key business cycles and changes to financial reporting.
- Document design and implementation of key controls for significant risks.
- Review of key documents including Board and Audit, Risk and Assurance Committee minutes.
- Planning work for wider scope responsibilities.

Interim

- Initiate substantive procedures addressing significant risk around management override of control.
- Update risk assessments for any developments since the planning phase before fieldwork begins.
- Complete wider scope procedures.

Year end fieldwork

- Review of draft accounts.
- Substantive testing of all material areas.
- Detailed review of annual accounts and report, including Annual Governance Statement.
- Review of final internal audit reports and opinion.
- Completion of testing on significant audit risks.

Reporting

- Final Audit, Risk and Assurance Committee meeting.
- Issue final Annual Report to the Board and the Auditor General.
- Issue audit report and submission of audited financial statements to Audit Scotland and the Scottish Parliament.
- Audit feedback meeting.

Audit Team

Pat Kenny, Audit Director

Paul Hewitson, HESe Audit Director

Karlyn Watt, Senior Manager

Conor Healy, Manager

Rebbecca McConnachie, Field Manager

2019/20 Audit Plan	Final report to the Audit, Risk and Assurance Committee		
October	**January - March**	**May - June**	**July - August**

Ongoing communication and feedback

Materiality

Our approach to materiality

Basis of our materiality benchmark

- The audit director has determined materiality for the group as £2.111m (2018/19: £2.239m) and performance materiality as £1.583m (2018/19: £1.679m) based on professional judgement and risk factors specific to HES, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- Performance materiality is the amount or amounts set at less than materiality for the financial report as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial report as a whole.
- We have used 2% of forecasted gross expenditure as the benchmark for determining materiality and applied 75% as performance materiality.
- This approach is consistent with our prior year materiality calculation.
- For the audit of HES (charity only) a materiality of £1.878m (2018/19: £1.903m) has been determined, and performance materiality of £1.408m (2018/19: £1.427m).

Reporting to those charged with governance

- We will report to you all misstatements found in excess of our clearly trivial threshold which is £105k (2018/19: £111k); for the audit of HES (charity only) the threshold is £93k (2018/19 £95k)
- We will report to you misstatements below this threshold if we consider them to be material by nature.
- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to Audit, Risk and Assurance Committees must not exceed £250k.

Our annual audit report

We will:

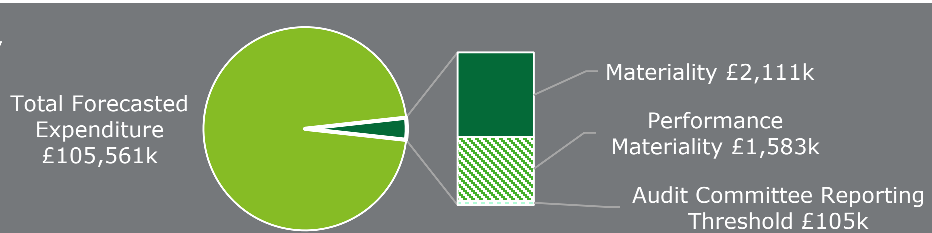
- Report the group materiality, charity only materiality and the range we use for component materialities;
- provide comparative data and explain any changes in materiality, compared to prior year, if appropriate; and
- explain any normalised or adjusted benchmarks we use, if appropriate.

Group scoping

HES has two wholly owned subsidiaries: Scran Ltd and Historic Environment Scotland Enterprises Limited (HESe) and a partnership interest (CCDV LLP), only HESe and SCRAN are consolidated within HES financial statements. We will audit HESe to a separate materiality threshold. SCRAN meets the criteria of being a dormant entity as there were no transactions in the current and previous year so no statutory audit is required. We therefore agreed with management to resign from the audit in 2018/19 and for SCRAN accounts to be unaudited going forward provided it remains dormant. HES also has a partnership interest in CCDV LLP. In 2018/19 this was not material to the group however this will be reviewed to ensure it has remained immaterial to the group.

HESe materiality is set at £332k (2018/19: £303k) and performance materiality £298k (2018/19: £277k). The clearly trivial threshold is £16k (2018/19: 15k).

Materiality



Although materiality is the judgement of the audit director, the Audit, Risk and Assurance Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Core audit work	Planned output	Timeline
Perform an audit of the annual accounts and express specified audit opinion	Annual audit plan Independent auditor's report	7 February 2020 14 August 2020
Consider and report on the audit dimensions	Annual audit plan Annual audit report	7 February 2020 22 July 2020 (ARAC) 14 August 2020 (Board)
Provide information on cases of fraud	Fraud Returns	30 November 2019 28 February 2020 31 May 2020 30 August 2020
Contribute to National Fraud Initiative (NFI) report	NFI audit questionnaire Reference, if necessary, in annual audit report	28 February 2020 14 August 2020

Scope of work and approach (continued)
Our approach

Liaison with internal audit

The Financial Reporting Council's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

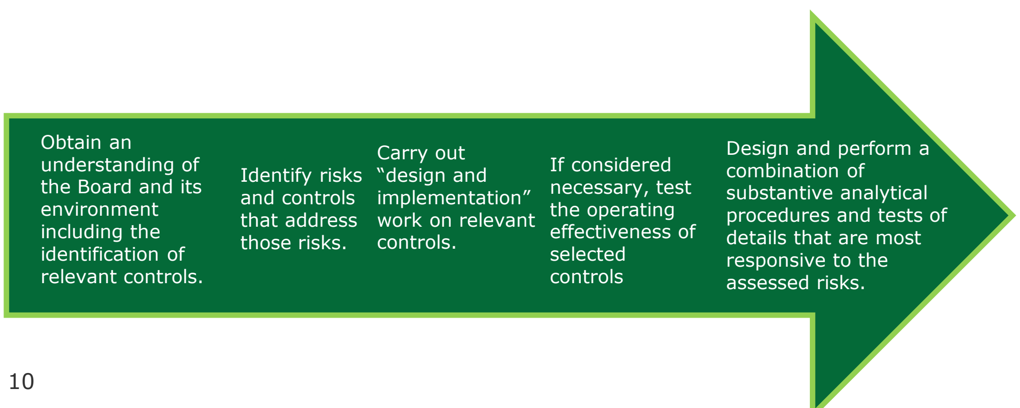
We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the HES staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.



Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We have also designed and continually update the Financial Reporting Standard 102 ("FRS 102") and Charities SORP ("the SORP") disclosure checklists in conjunction with the requirements of the FReM to support HES in preparing high quality drafts of the Annual Report and financial statements, which we would recommend HES complete during drafting.

We will continue to review an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management and the Audit, Risk and Assurance Committee.

Audit Scotland has published good practice guides in relation the Annual Report and the Governance Statement to support HES in preparing high quality drafts of the Annual Report and financial statements, which we would recommend HES consider during drafting.

Statutory Other Information

In addition to the financial statements, we are required to consider whether the Performance Report and Governance Statement is consistent with the financial statements and has been prepared in accordance with applicable requirements. In performing this work, we will refer to the Financial Reporting Council report issued in December 2018 following an audit quality thematic review of auditors' work on other information which identified a number of instances when insufficient work was performed to ensure that good practice is followed.

Significant risks
Dashboard

Risk	Material?	Fraud risk identified?	Planned approach to controls testing	Level of management judgement	Page no.
Completeness of commercial income	✓	✓	Design and implementation	⚠	12
Management override of controls	✓	✓	Design and implementation	⚠	13

Both risks cover HES and HESe

⚠ Some degree of management judgement

⚠ Limited management judgement

Significant risks (continued)
Risk 1 – Completeness of commercial income

Key focus for management

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 main components of income for HES, are government grant in aid (HES) and commercial income (HESe). Grant in aid is directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100%. The significant risk is pinpointed to completeness of commercial income, being income from admissions and retail income from properties in care. As commercial income comprises low value, high volume cash transactions across multiple locations there is an inherent risk of fraud in respect of these balances. As regular reconciliations are performed between the bank accounts and the amounts recognised via the Galaxy till receipting system, the risk is focused on how any reconciling items are investigated and addressed. This will be our key area of audit focus.
Planned audit challenge	We will perform the following: • obtain an understanding of the design and implementation of the key controls in place in relation to recording of commercial income; • perform analytical procedures over commercial income reported for the year, based on visitor numbers and price changes, to confirm accuracy; and • Detailed testing of the year-end reconciling difference as identified in the monthly control account reconciliation for account code 9111, being the difference between what is uploaded from the Galaxy system, and what is uploaded from the bank statements, to gain assurance over completeness of amounts recognised as income in the financial statements.

Significant risks (continued)
Risk 2 – Management override of controls

We will use computer assisted audit techniques, including Spotlight, to support our work on the risk of management override

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 HES's controls for specific transactions. The key judgements in the financial statements are those which we have selected to be the significant audit risk around revenue recognition and investment grants. This is inherently the areas in which management has the potential to use their judgement to influence the financial statements.
Planned audit challenge	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: **Journal testing** • We will test the design and implementation of controls over journal entry processing. • Using our Spotlight data analytics tool, we will risk assess journals and select items for detailed follow up testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest. • We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. **Accounting estimates** • We will test the design and implementation of controls over key accounting estimates and judgements. • We will review accounting estimates for biases that could result in material misstatements due to fraud. This will include both a retrospective review of 31 March 2019 estimates and a review of the corresponding estimates as at 31 March 2020. **Significant and unusual transactions** • We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Wider scope requirements

Audit dimensions

The Code of Audit Practice sets our **four audit dimensions** which set a common framework for all public sector audits in Scotland. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of HES' key priorities in risks as well as any risks identified by Audit Scotland. We have set out below our identified audit risks in relation to the audit dimensions and proposed response. In addition, we will follow up the progress made in relation to our previous years' recommendations.

Audit dimension	Conclusions from previous years	2019/20 Audit Risks
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.	We concluded in 2018/19 that the HES Financial Strategy set out different options for achieving efficiency and medium to longer term financial sustainability. This includes emerging trends such as the potential reductions to Grant in Aid and risks associated with EU withdrawal. While it is positive to note that the Financial Strategy has been agreed, it is imperative that actions are progressed and the impact of these monitored to ensure that the expected benefits are realised. We also acknowledged that the CMIS project is a significant part of the transformation work as a key enabler to a number of areas. We were satisfied that there is evidence of efforts being made to work towards outcome based budgeting which will provide greater linkages between the budget and national outcomes This should be aided by the new CMIS system, which we will continue to monitor the implementation of during our 2019/20 audit work.	There is a risk that the plans for efficiency and financial sustainability are not sufficiently robust to allow the benefits to be realised. We will assess the progress being made in implementing the agreed plans, including the work being done as part of the CMIS project. We understand that HES is in the process of appointing a new implementation partner and developing an updated project plan. We will gain updates from management throughout the year.
Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	We concluded in 2018/19 that HES has effective financial planning and management arrangements in place, with transparent reporting to the Board and Senior Management Team throughout the year.	While we have not identified any specific risks in this area during our audit planning, we will continue to review the financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored.

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Conclusions from previous years	2019/20 Audit Risks
Financial management (continued)	In accordance with Audit Scotland planning guidance, fraud and corruption in the procurement function (such as illicit rebates, kickbacks and false invoicing) is a risk across the public sector. We will therefore consider the Board's controls and processes as a matter of particular focus.	There is a risk that controls around the procurement process are insufficient to prevent and detect fraud and corruption. We will therefore evaluate the arrangements that the Board has in place to mitigate this risk.
Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	In 2018/19 we concluded that the governance framework and arrangements, including decision making and scrutiny, are appropriate and support good governance and accountability. The Board has strong executive leadership, the relationship between board members and officers is good, and there is evidence of effective challenge from committee meetings. We also concluded that the Board is open and transparent in its decision making with all key strategy documents and key Board minutes available through the Board's website.	While we have not identified any specific risks in this area during our audit planning, we will continue to review the work of the Board and the Audit, Risk and Assurance Committee.
Value for money is concerned with using resources effectively and continually improving services.	In 2018/19 we noted that HES has continued to make substantial progress in its third year of the 2016-2019 Corporate Plan, and has either achieved or partially achieved 99 of the Key Performance Indicators set out in the Year 3 Annual Operating Plan.	While we have not identified any specific risks in this area during our audit planning, we will continue to review the HES' performance against its Corporate Plan, the Board's reporting and monitoring of these and the actions taken to improve the performance.

Wider scope requirements (continued)

Other requirements

National Fraud Initiative (NFI)

A number of central government bodies, including HES, are participating in the NFI 2018/19. Audit Scotland expects bodies to investigate all recommended matches based on findings and the risk of error or fraud by 30 September 2019, with the results recorded on the NFI system.

We will be required to complete and submit a questionnaire by 28 February 2020. The information from this will be used in Audit Scotland's next NFI report due to be published in the summer of 2020.

Maintaining audit quality
Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

The role of audit	• Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability). • Deloitte fully supports an independent review into the role of auditors. • The Government's Brydon Review will consider UK audit standards and how audits should evolve.
Would it be better to have audit only firms?	• Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit. • Our investment in audit innovation, training and technology is greater because of the multidisciplinary model.
Is the current audit market uncompetitive?	• We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders. • There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering. • The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies.
Independence and conflicts from other services	• Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients • Deloitte invests heavily in systems, processes and people to check for potential conflicts. • We have governance arrangements in place to assess any areas of potential conflict, including where required to protect the public interest. • Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue).
Deloitte	• Our Impact Report and Transparency Report are available on our website https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html

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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope;
- Key regulatory and corporate governance updates, relevant to you.

What we don’t report

As you will be aware, our audit is not designed to identify all matters that may be relevant to HES.

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, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit, Risk and Assurance Committee, 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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

Pat Kenny, CPFA

for and on behalf of Deloitte LLP

Glasgow

24 January 2020

Appendices

Fraud responsibilities and representations
Responsibilities explained

Your 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.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out in the significant risks section of this document, we have identified the risk of fraud in the achievement of expenditure resource limits and management override of controls as a key audit risk for your organisation.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of HES:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud that affects the entity or group and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations
Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.

Internal audit and Local Counter Fraud Specialist

- Whether internal audit and the Board's local counter fraud specialist has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and will reconfirm our independence and objectivity to the Audit, Risk and Assurance Committee for the year ending 31 March 2020 in our final report to the Audit, Risk and Assurance Committee.
Fees	The audit fee for 2019/20, in line with the fee range provided by Audit Scotland, is £78,160 as analysed below.

	£
Audit Remuneration	60,690
Contribution to Audit Scotland	3,360
Pooled Costs	14,110
Total expected fee	**78,160**
HESe (ex VAT)	13,250
Total Fee	**91,410**

There are no non-audit services fees proposed for the period.

Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Board's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Board, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

The AQR's 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

"Our key individual review findings related principally to the need to:

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit, Risk and Assurance Committees on internal controls and on the wording of auditor's reports."

Sector developments

Sector developments

Cyber Security Breaches Survey

The Department for Digital, Culture, Media and Sport published their annual report on cyber security breaches in April 2019. The key findings infographic summarises that while 22% of charities compared with 32% of companies identified cyber security breaches or attached in the last twelve month the average annual cost for charities that lose data or assets after breaches was £9,470 compared to £4,180 for businesses.

Whilst, the survey reports a 15% increase in charities putting cyber security policies in place, this means that only 36% of charities have policies leaving almost two thirds of the sector potentially vulnerable (although ahead of businesses for which only 33% had policies in place). A separate infographic has been produced to focus on the impact on charities. This gives further detail on the results by income, looking at charities with income of under £100,000, £100,000 to £500,000 and those over £500,000. Not surprisingly more charities in the higher income band identified breaches or attacks, however all bands were recognised some cyber-attacks and breaches.

The Charity Commission updated its guidance protect your charity from fraud and cyber crime in May 2019 including in it reference to the National Cyber Security Centre’s toolkit designed to encourage essential cyber security discussions between the Board and their technical experts. The toolkit sets out a number of challenging questions for Board’s about ‘what good looks like’ in different contexts, for example, risk assessment, collaboration and developing a positive cyber security culture.

We would recommend that trustees review this guidance and ensure that cyber considerations are established as part of the charity’s operational considerations and that there are reporting routes and planned incident responses designed and tested for potential and actual cyber security breaches.

Sector developments

Recent OSCR Publications

Charity Law consultation
The Scottish Government has published an analysis of the responses to the consultation on changes to charity law.

This follows their consultation earlier in the year on changes to the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act), the main piece of charity law in Scotland. The changes set out in the consultation included proposals put forward by OSCR to enhance public trust and confidence in the charity sector by:

- increasing transparency
- providing OSCR with greater enforcement powers
- streamlining operations and increasing efficiency.

By the end of the consultation period, 307 responses had been submitted. The responses are available to view. The vast majority of responses agreed with the proposals to change charity law put forward by OSCR.

Committee seeks views on charity accounting framework
The SORP-making body charged with developing the Charities Statement of Recommended Practice (the SORP) is looking for engagement partners that will form key stakeholder groups to help gather feedback and ideas for change.

The main purpose of the SORP Committee is to identify potential changes to the SORP and advise the SORP-making body. Chosen engagement partners can be individuals or organisations. They will have an interest in charity financial reporting and the work of the sector, and will have the opportunity to work with the SORP Committee to make sure that their views are expressed correctly.

These partners will be put into stakeholder groups based on their main areas of work. Groups will be asked to reflect on:

- the information needs of users of charity annual reports and accounts
- how far the SORP needs to change to meet those needs
- what information users of the SORP need to prepare for good annual report and accounts
- opportunities to simplify and remove unnecessary reporting and ensuring technical compliance with the UK-Irish Generally Accepted Accounting Practice (GAAP).

The views of the stakeholder groups inform the work of the advisory Charities SORP Committee and so shape the future form and content of the SORP.

State of the State

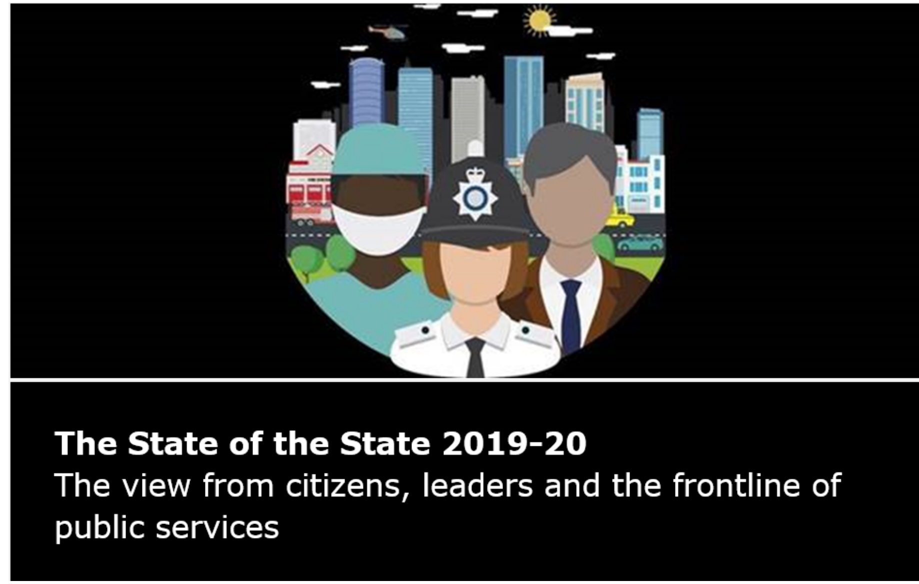
The view from citizens, leaders and the frontline of public services

Background and overview

Now in its eighth year, The State of the State brings together Deloitte and Reform to make an annual assessment of government and public services in the UK. As Brexit negotiations and parliamentary wrangling continues, The State of the State looks beyond the headlines to explore the UK's public sector from the view of citizens, public sector leaders and the frontline of public services.

The State of the State finds that the public want greater spending on services and perceptions of social inequality have grown. It finds that investment in skills could make a significant difference to some of the UK's pervasive economic issues including productivity and regional disparity. And it finds frontline public sector professionals are too often hampered by out-of-date technology and working environments.

But amid these challenges, The State of the State finds much to be positive about. Our research shows that public sector leaders are enthused by the prospect of increased spending, public support is strong for government action on big issues like climate change and the thriving public sector ethos at the frontline remains one of the UK's core strengths.



Next steps

A summary of the key conclusions are provided on the next page. The full report is available at https://www2.deloitte.com/uk/thestateofthestate

State of the State (continued)

The view from citizens, leaders and the frontline of public services

Key conclusions

Combining the three perspectives in our research offers real insight into issues at the heart of a new domestic agenda. Our key observations are:

- **The public and the public sector want to know what post-austerity looks like.** Public service leaders are best placed to make their own devolved decisions, but many want direction from national governments on the shape of post-austerity, sector-wide reform. At the frontline, professionals want that reform to include greater use of mobile technology to reduce their administrative burden and boost their productivity.

- **Infrastructure and skills investment should be deployed to tackle economic inequalities.** The public think that economic inequalities in the UK are getting worse and public sector leaders believe transport infrastructure investment could tackle them if deployed with purpose. Our research also suggests that a range of the UK's economic and social challenges converge around skills – and so investment in skills provision could make a substantial difference to the UK's post-Brexit future.

- **The UK has an opportunity to consolidate its environmental leadership.** Public concerns on climate change have spiked in the past year, support for government intervention is strong and the UK has a window of opportunity to consolidate its environmental leadership when Glasgow plays host to the COP26 summit in 2020.

- **Resolving the social care crisis needs political will.** As the Queen's Speech recognised, underfunding in the social care system continues to blight lives and exacerbate demand on the NHS. Leaders across the public services want to see social care rise as a political priority and our survey finds it may be emerging as a priority for the public. Our research suggests that cross-party political leadership may be the best route to new funding arrangements – perhaps considering systems around the world as a starting point for UK options.

- **The UK could set the global gold standard in public administration.** Brexit may be dominating a substantial part of Civil Service capacity, but it has enhanced government capability and stimulated cross-departmental working. Leaving the EU is an era-defining challenge for government departments but beyond Brexit, the UK will be in a strong position to set the global gold standard for public administration, exporting UK expertise, experience of successful transformation and digital know-how.

What does climate change mean for business?
New website – learning, interviews and resources

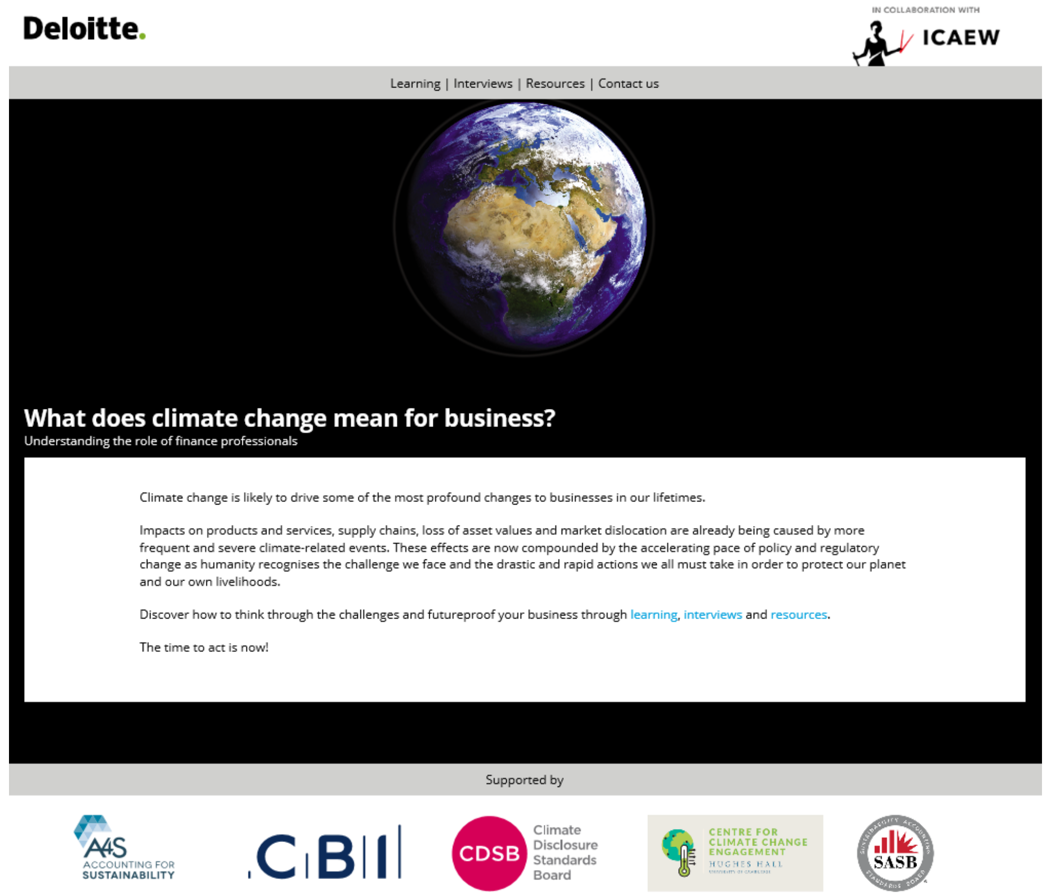
Background

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events.

Discover how to think through the challenges and futureproof your business.

The time to act is now!



Next steps

Deloitte and the ICAEW have a launched a site to support considering what climate change means for finance professionals at www.deloitte.co.uk/climatechange