Scottish Criminal Cases Review Commission

2019/20 Annual Audit Report

Prepared for the Scottish Criminal Cases Review Commission and the Auditor General for Scotland

July 2020

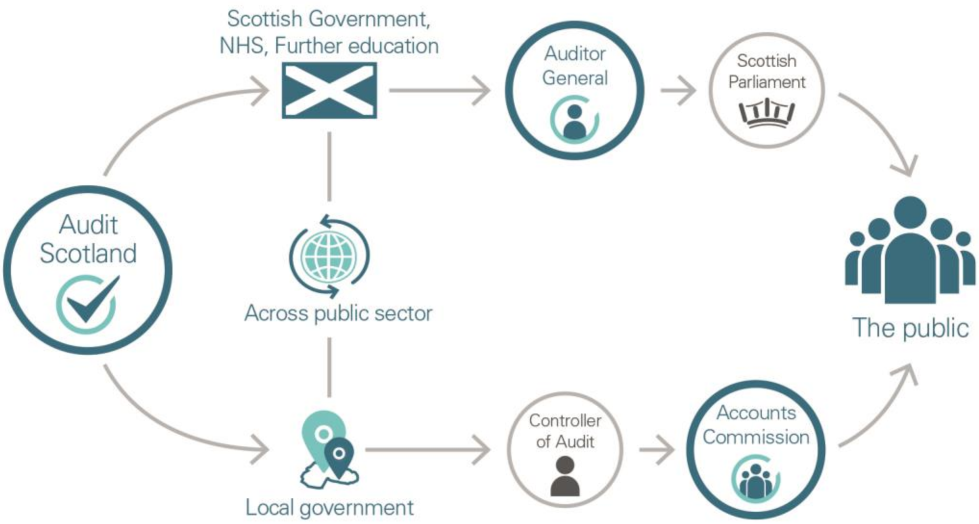
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Contents

Key messages

2019/20 annual report and accounts

1 **The Commission's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework. Expenditure and income were incurred in accordance with applicable enactments and guidance.**

2 **The audited part of the remuneration report and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.**

3 **The Commission experienced issues accessing the SEAS ledger following the office move and these were further exacerbated with the challenges presented by COVID-19 suppression measures. This has led to delays in the auditing timetable. The annual report and accounts were signed off later than planned, but still in advance of the statutory deadlines.**

Financial sustainability and governance

4 **The Commission operated within its revised budget in 2019/20.**

5 **The 2020/21 financial plan will be challenging to achieve even with the increase in funds from the Scottish Government, as there are increased levels of fixed costs, which means there is less flexibility in the budget.**

6 **We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers. Governance arrangements at the Commission are effective and continue to be effective during the COVID-19 suppression measures.**

Introduction

1. This report summarises the findings from our 2019/20 audit of the Scottish Criminal Cases Review Commission (the Commission).

2. The scope of our audit was set out in our Annual Audit Plan presented to the 13 February 2020 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the Commission's annual report and accounts
- our consideration of governance and financial sustainability.

3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, the Commission has had to respond to the COVID-19 pandemic. This impacted on the final month of the year and will continue to have significant impact into the 2020/21 financial year. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements. The Commission has adapted quickly to the impact of COVID-19 by moving all meetings to teleconference facilities so that the governance arrangements can continue to function as planned.

Adding value through the audit

4. We add value to the Commission through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports (Appendix 3) and good practice guides
- providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. 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.

Responsibilities and reporting

6. The Commission has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The Commission is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016 and supplementary guidance and International Standards on Auditing in the UK.

8. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

9. The Code of Audit Practice 2016 (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. As highlighted in our 2019/20 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2019/20 audit.

10. This report raises matters from our audit. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. Our annual audit report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

Auditor Independence

12. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £7,870 as set out in our Annual Audit Plan, remains unchanged.

13. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to the Commission and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank the management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual report and accounts

Main judgements

The Commission's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework. Expenditure and income were incurred in accordance with applicable enactments and guidance.

The audited part of the remuneration report and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The Commission experienced issues accessing the SEAS ledger following the office move and these were further exacerbated with the challenges presented by COVID-19 suppression measures. This has led to delays in the auditing timetable. The annual report and accounts were signed off later than planned, but still in advance of the statutory deadlines.

Our audit opinions on the annual report and accounts are unmodified

16. The annual report and accounts are the principal means of accounting for the stewardship of the Commission's resources and its performance in the use of those resources.

17. The annual report and accounts for the year ended 31 March 2020 were approved by the Audit Committee on 9 July 2020.

18. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration report and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The accounting framework was not changed due to the COVID-19 pandemic

19. There was additional guidance released via a FReM addendum which permitted the streamlining of content in the performance report. This guidance was issued around the same time that the Commission provided its annual report and accounts for audit. The Commission, therefore, did not reduce the content of the performance report, and continued to comply with the full FReM requirements.

The annual report and accounts were signed off later than planned

20. The unaudited annual report and accounts were not received in line with our agreed audit timetable on 5 May 2020. The Commission was unable to deliver unaudited financial statements in accordance with the audit timetable due to physical limitations accessing the ledger which were already in existence but exacerbated by COVID-19 suppression measures. The annual report and accounts were signed off later than planned, but still in advance of the statutory deadlines.

21. The unaudited annual report and accounts provided for audit were mainly complete and of a good standard and finance staff provided very good support to the audit team which helped ensure the final accounts audit process ran smoothly. The treatment of the new operating lease and lease incentive was not fully included in the accounts.

Overall materiality is £12.8 thousand

22. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

23. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that minor changes were required to our planned levels. This is because we based our materiality on expected gross expenditure and expenditure was slightly higher than planned. This has had no change on our audit approach.

Exhibit 1
Materiality values

Overall materiality	£12.8 thousand
Performance materiality	£7.7 thousand
Reporting threshold	£1 thousand

Source: Annual Audit Report 2019/20

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

24. Appendix 2 provides our assessment of risks of material misstatement in the annual report and accounts. It also summarises the work we have done to gain assurance over the outcome of these risks.

25. We have reported one main issue from our work on the risks of material misstatement. This relates to the new property lease at Portland House and is included in the action plan at Appendix 1.

We have no significant findings to report on the accounts, except for those included at Exhibit 2

26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. We have no significant findings to report around the qualitative aspects. The significant findings are summarised in Exhibit 2.

Exhibit 2
Significant findings from the audit of the financial statements

<table>
<tr><th>Finding</th><th>Resolution</th></tr>
<tr><td>1. New property lease Portland House

There were a number of issues relating to the property move and new lease which had not been accounted for correctly:
Disposals of fixtures/fittings and IT hardware/software which were associated with the move, had not been accounted for.
The new fixture and fittings assets associated with the move had not been capitalised.
The accounting treatment for the new provision for dilapidations had to be revised following the capitalisation.
The lease incentive (fixtures and fittings equivalent to 39 months free rent) had not been accounted for correctly.
As part of the lease negotiations no payment was made for dilapidations and these were covered by the landlord, hence the prior year provision was required to be incorporated into the lease incentive. This had not been reflected in the accounts.
The deferred income which was received for the refurbishment had been correctly used for payment of furnishings and fittings, but was being treated as ‘new’ income
Commentary in the annual report and accounts did not fully reflect the new lease, new assets (fixtures and fittings) and lease incentive.</td><td>Several changes were made in the accounts:
Asset disposals were processed. This had no impact of the Statement of Financial Position as these assets were fully depreciated and had a nil net book value.
The fixture and fittings assets were included on the fixed asset register and included in the Statement of Financial position
The new provision was updated and correctly capitalised.
The lease incentive (fixtures and fittings and prior year provision) is now correctly included as a creditor balance on the Statement of Financial Position and will be amortised over the life of the lease.
The deferred income has now been accounted for correctly in the accounts.
The commentary in the annual report and accounts was revised to reflect the above.
Recommendation 1
(refer Appendix 1, action plan)</td></tr>
<tr><td>2. Capital expenditure included in non-pay expenditure

In addition to the new fixtures and fittings which is detailed above, invoices totalling £13k were included in the expenditure log and were found to be capital items. These were not included in the fixed asset notes, nor in the Statement of Financial Position in the accounts. Depreciation was subsequently not charged on these items in year.</td><td>The capital items have now been capitalised and this has increased the assets on the Statement of Financial Position and reduced expenditure.
Depreciation has now been charged on these assets.
Recommendation 2
(refer Appendix 1, action plan)</td></tr>
<tr><td>3. Season ticket advance

Included in prepayments was a credit balance of £3k related to season tickets for Commission staff. The Scottish Government pays these in advance and charges this to the Commission, who hold this as a debit balance in its ledger. The employee has a proportion of their salary deducted throughout the year to repay the value of the season ticket to the Commission. At year end, it is expected there be a reduced debit balance (not zero, as tickets do not</td><td>This has now been amended correctly in the accounts.
Recommendation 3
(refer Appendix 1, action plan)</td></tr>
</table>

Finding	Resolution
fully coincide with the financial year). As in previous years, the year-end balance was rectified on SEAS.	

Source: Audit Scotland

Misstatements were adjusted in the accounts; these were greater than our performance materiality and we carried out additional work

27. There were a number of material adjustments to the unaudited annual report and accounts arising from our audit work, as reported above. The total misstatements have resulted in an increase of net expenditure of £48k in the Statement of Comprehensive Net Expenditure and a corresponding increase in liabilities in the Statement of Financial Position of £48k (assets have increased by £304k and liabilities have increased by £352k). These primarily relate to the property move and new lease, as detailed above, and additional work was carried out to ensure that all transactions relating to this were correctly included in the financial statements.

28. We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. All individual misstatements which exceeded our reporting threshold have been amended by management in the audited financial statements.

29. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

Good progress was made on prior year recommendations

30. The Commission has made good progress in implementing our prior year audit recommendations. Actions have been completed or are superseded e.g. the lease action point was superseded by the new lease, as set out in Appendix 1.

Part 2

Financial sustainability and governance

Main judgements

The Commission operated within its revised budget in 2019/20.

The 2020/21 financial plan will be challenging to achieve even with the increase in funds from the Scottish Government, as there are increased levels of fixed costs, which means there is less flexibility in the budget.

We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers. Governance arrangements at the Commission are effective and continue to be effective during the COVID-19 suppression measures.

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.

The Commission operated within its revised budget in 2019/20

31. The main financial objective for the Commission is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

32. The Commission had an initial budget allocation of £1,059k for 2019/20. Additional funding of £225k was provided by the Scottish Government, which was significantly higher than in previous years, with the revised budget totalling £1,284k. This additional funding supported costs associated with legal cases and the office move.

33. The Statement of Net Comprehensive Expenditure (SoCNE) shows expenditure in year of £1,137k. The full amount of cash drawn down was £1,284k which was used for expenditure in the SoCNE and to support capital expenditure which is not included in the SoCNE.

34. There has been a significant increase in the assets held by the Commission, as seen on the Statement of Financial Position (SoFP). These relate to fixtures and fittings from the new office move, as well as new IT equipment for staff which was introduced in May 2019. This IT equipment has supported the Commission in working more flexibly, especially during the COVID-19 suppression measures.

35. The spending on fixtures and fittings has been financed by monies from the Scottish Government, cash reserves held by the Commission, the cash incentive provided by the contractors to support the new lease agreement, and deferred income which had been provided by the previous landlord to support the upgrading of fixtures and fittings. A lease incentive creditor has also been included on the SoFP which reflects the incentive provided by the current landlord.

The body has a short and medium-term financial plan

36. Funding from the Scottish Government is the Commission's sole source of income and there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the focus for the Commission is achieving a balanced financial plan to remain within its annual allocation.

37. Funding to the Commission remained static between 2014/15 to 2017/18. There was a small increase in 2018/19 to £1,039k and again in 2019/20, when it was increased to £1,059k. As noted above, £225k of additional funding was provided in year to support the office move and specific cases. Historically, the Commission has used its relatively high cash reserves to help fund expenditure, over the last few years. In 2019/20 an element of these cash reserves was used to support the office move which took place in October 2019. The Commission still has cash reserves which can be used to support operational expenditure in the future.

38. The Commission's Corporate Plan covering the period 2019-2022 was issued in May 2019. This includes a high-level short to medium term financial plan based on an assumed level of funding from the Scottish Government and estimated costs. The plan in May 2019 assumes that funding from the Scottish Government will remain the same at £1,039k over the medium term.

39. The Corporate Plan 2019-22 also identifies that the Commission has entered into an analogue pay agreement with the Scottish Government, which means that staff are now on Scottish Government pay points and part of the central bargaining for annual pay negotiations. To fund this new pay structure, the Commission is having to work at less than the full complement of staff over the duration of the plan.

40. The 2020/21 Business Plan includes the actual financial plan and budget for 2020/21. This shows a budget of £1,156k of which £1,000k (staff and accommodation costs) are fixed costs. This budget is an increase of £117k on the amount included in the three-year corporate plan. This reflects additional funding from Scottish Government to take recognition of increased lease costs and additional funding for staff costs to take account of factors such as the progression and the expected basic pay award. Legal costs have exceeded the planned budget of £10k for a number of years, but the Scottish Government is funding these as required rather than providing additional funding at the start of the year.

41. While efforts have been made in the past to achieve savings to operate within budget, future efficiencies are now limited. Fixed costs now account for approx. 87% of spend. This reduces the flexibility that the Commission has to adjust to new circumstances. In the past few years, the Commission has used cash reserves to help fund the Commission's expenditure, however this is not sustainable in the longer term. It will be challenging to realise further savings without impacting on core services.

42. The Commission has not yet developed a longer-term financial plan and, as a step towards this, the Commission should develop a rolling three-year financial plan, rather than just developing a new three-year plan when producing the corporate plan. This would help to ensure that the Commission is preparing plans based on the latest budgetary figures and this will support identifying savings or more medium-term challenges.

Recommendation 4

The Commission faces significant financial challenges in the short and medium term. The Commission should look to develop a rolling three-year financial plan which will help identify future challenges and potential savings plans in the medium term.

Governance arrangements are working effectively

43. Our review of the governance statement assessed the assurances which are provided to the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the board's system of internal control which operated in the financial year.

44. We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by Scottish Ministers.

45. We recognised that the Commission concluded the Best Value Action Plan from the work which began in 2016/17 by completing the new office move and the staff survey which had been awaiting the completion of the move and the new IT infrastructure. We note that a new Best Value Review is due to take place in 2020/21

46. We concluded that the Commission moved swiftly to put in appropriate teleconference arrangements to ensure that the work of the Board could continue during the COVID-19 suppression period. The Commission also adapted its processes and controls where required e.g. around payments for invoices, to support effective working during the COVID-19 suppression period. The Commission also recognise the efficiencies around some of these changes and will bring some of these into practice permanently.

47. We reviewed the governance arrangements in place at the Commission to ensure they are appropriate and operating effectively. We attended the Audit Committee and reviewed the financial performance quarterly report, and other committee papers and minutes.

48. We concluded that the financial reports are satisfactory and presented timeously to the Board and that there is a good level of scrutiny and challenge on decision making.

National performance audit reports

49. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Appendix 3 highlights a number of the reports published in 2019/20.

Appendix 1

Action plan 2019/20

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**New property lease Portland House** The office move and new lease had not been accounted for correctly. This included not disposing of assets no longer owned by the Commission, not capitalising the new fixture and fittings assets and subsequent revised treatment of the provision and the treatment of the lease incentive including the prior year provision. **Risk –** There is a risk that year end expenditure and balances are materially misstated in the accounts.	Whilst we recognise that COVID-19 suppression measures and working from home have created challenges and that there had been focus on preparing for IFRS 16 (now postponed to 2021/22), other aspects of the lease e.g. disposals, capitalisation of assets, etc were not progressed. The Commission should seek support from the Scottish Government for complex transactions and look to ensure that a process is in place for future years to ensure that the annual lease transactions are part of the year end processes. Exhibit 2 Finding 1	Agreed – the Commission worked with Accountancy Services regarding all of the lease issued noted and a number of presentational approached we considered – these were subsequently discussed/revised with the assistance of the external audit team. Future year presentation will therefore be much more straight forward although the Commission will ensure that in future a more finalised approach is agreed before draft accounts are submitted. Responsible officer: DoCS Agreed date: Ongoing
2	**Capital expenditure included in non-pay expenditure** In addition to the new fixtures and fittings detailed above, invoices totalling £13k were included in the expenditure log and were found to be capital items. These were not included in the fixed asset notes, nor in the Statement of Financial Position in the accounts. Depreciation was subsequently not charged on these items in year. **Risk** – There is a risk that year **end** balances are materially misstated in the accounts.	The Commission should review expenditure at year end to identify any capital assets and ensure that these are correctly capitalised, included on the fixed asset register, and that depreciation is then charged in line with the policy. The accounts preparation process should have sufficient time built in for review, which we acknowledge was challenging in 2019/20. Exhibit 2 Finding 2	Agreed – the items referred to were identified during the course of the audit and fully included. Year-end expenditure will however be subject to further review in future. Responsible officer: DoCS Agreed date: 31 March 2021

No.	Issue/risk	Recommendation	Agreed management action/timing
3	**Season ticket advance** Included in prepayments was a credit balance of £3k related to season tickets for Commission staff. The Scottish Government pays these in advance and charges this to the Commission, who hold this as a debit balance in its ledger. The employee has a proportion of their salary deducted throughout the year to repay the value of the season ticket to the Commission. At year end, it is expected there be a reduced debit balance (not zero, as tickets do not fully coincide with the financial year). As in previous years, the year-end balance was rectified on SEAS. **Risk** – There is a risk that the original charge and repayments are not correctly recognised in the Commission's accounts, and the accounts may be materially misstated.	The Commission should work with the Scottish Government to review season ticket advances at year end. The accounts preparation process should have sufficient time built in for review. Exhibit 2 Finding 3	Agreed – will liaise with Scottish Government to streamline process and ensure that year-end accounts accurately reflect any balances. Responsible officer: DoCS Agreed date: 31 March 2021
4	**Short to medium term financial challenges** While efforts have been made in the past to achieve savings to operate within budget, future efficiencies are now limited. Fixed costs account for 87% of spend. This reduces the Commission's flexibility to adjust to new circumstances **Risk** – There is limited scope for the Commission to make future efficiencies and there remains a risk that the Commission may be unable to continue to fund its operating costs. The use of cash reserves to support the financial position is not sustainable in the medium term.	The commission currently prepares a three-year budget based on flat cash assumptions as part of the Corporate Plan process. As a step towards longer term financial planning, the Commission should look to develop a rolling three-year financial plan. This will help to identify future challenges and potential savings plans in the medium term. Paragraph 40-42	Agreed – despite problems in obtaining any funding commitments from Scottish Government in advance, the Commission will put in place a rolling 3-year plan as an extension to the current 2-year plan developed in 2019-20 Responsible officer: DoCS Agreed date: 31 December 2020

No.	Issue/risk	Recommendation	Agreed management action/timing
Outstanding prior year recommendations from Annual Audit Report 2018/19			
1	**2018/19 AAR: Bank reconciliations** There were errors in the year end bank reconciliations which has resulted in errors in the financial statements of £41k and £4k in the central and local bank accounts respectively. The central bank reconciliation, carried out by the Scottish Government finance team, had a reconciling item regarding a PAYE payroll accrual which was an error, and this was not identified through the reconciliation process. The local bank account balance was incorrectly excluded from the financial statements **Risk –** There is a risk that the year-end bank balances are materially misstated in the annual accounts.	The Commission should have oversight of both the central and local bank reconciliations, and there should be evidence of review of both reconciliations. Reconciling items should be reviewed at each period end to ensure they are valid. At the year-end details of the reconciliations should be provided to the Scottish Government timeously.	**Complete** New processes for completing bank reconciliations have been introduced in 2019/20 with the Commission taking more ownership. Controls have improved as a result of this and no issues have been identified.
2	**2018/19 AAR Trade payables** There has been a £9k trade payables balance in the accounts for a number of years. Whilst investigating this it was identified that the transactions were from 2016 and earlier. The obligations in trade payables had expired, and therefore these had to be derecognised in year. **Risk –** There is a risk that balances included in the accounts are materially misstated.	The Commission should review balances in the accounts, particularly when there has no movement from the prior year, to ensure that the balances remain valid. The accounts preparation process should have sufficient time built in for review.	**Complete for 2019/20 - 'rolling' action** No issues were identified in 2019/20. We expect as part of each year-end review process that the Commission reviews balances in the accounts to ensure they remain valid.
3	**Income relating to the award of legal costs** The Commission was awarded £32k of legal costs relating to a case. This award of income, although unlikely to be received, had not been recognised in the accounts or subject to impairment.	The Commission should identify any sources of income and discuss with the Scottish Government and Audit Scotland the proposed accounting treatment. The income should then be included in the unaudited accounts.	**Complete** A process has now been put in place to consider the treatment of any awards of legal costs.

No.	Issue/risk	Recommendation	Agreed management action/timing
	Risk – There is a risk that, as the Commission rarely receives non-SG income, it is not included correctly in the annual accounts.		
4	**Prepayments incorrectly recorded** We sample tested 25 expenditure transactions and identified one which included an element relating to 2019/20. This should have been recorded as a prepayment, and not as 2018/19 expenditure. This error amounted to £2.6k. In addition, we identified 2 transactions which had been incorrectly classified as prepayments. In both cases, the invoice related to 2019/20 and the invoice was not paid until 2019/20. This error amounted to £2k. **Risk –** There is a risk that the expenditure recorded for the year is materially incorrect.	The Commission has made progress in identifying prepayments at year end, but there is scope for reviewing closedown procedures to ensure that they are adequate for identify prepayments. The accounts preparation process should have sufficient time built in for review.	**Complete** No issues relating to non-identification of pre-payments have been identified in the 2019/20 accounts.
5	**Lease accrual** The current property lease has a three month 'rent-free' period at the beginning of its term. For accounting purposes, the rent-free period must be applied across the life of the lease. The year-end accrual resulting from the rent-free period of £8.7k has not been included in the unaudited accounts. **Risk -** There is a risk that the accrual relating to the lease is materially incorrect.	The Commission should ensure that the lease accrual is included in the unaudited accounts. The accounts preparation process should have sufficient time built in for review.	**Complete** This has been superseded by the signing of a new lease in 2019/20.
6	**Financial sustainability** The Commission faces significant financial challenges in the short and medium term. The Commission has used cash reserves in previous years to support annual expenditure costs, although this was not required in 2018/19. Works associated	The new Corporate Plan 2019-2022 identifies the financial pressures which are facing the Commission over the medium term. The Commission should seek to identify any further opportunities where savings can be made, for example, further collaborative or shared service work.	**In progress** Similar to all public sector bodies this remains a challenge for the Commission. The office move may generate some efficiency savings for the Commission, but this can only be assessed in the medium term.

No.	Issue/risk	Recommendation	Agreed management action/timing
	with the proposed office move in 2019/20 will use a proportion of the cash reserves. **Risk -** With Scottish Government funding frozen and limited scope for the Commission to make future efficiencies there is a risk that the Commission is unable to continue to fund its operating costs. The use of cash reserves to support the financial position is not sustainable in the medium term. The Commission should ensure that savings plans are developed for the medium term.	The Commission should look to build any planned efficiency savings into action plans to support the Corporate Plan	

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion.

	Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements			
1	**Risk of material misstatement caused by management override of controls** Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.	• Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Identification and evaluation of significant transactions that are outside the normal course of business	**Results** – We did not identify any significant issues within our work on journals or accounting estimates. Our testing of accruals and prepayments did not identify any errors. We did identify the new lease treatment was a significant transaction outside the normal course of business, and although there were errors in this, there was no override of controls. **Conclusion** – No issues were identified that indicated management override of controls.
2	**Risk of material misstatement caused by fraud in expenditure** ISA 240 and the Financial Reporting Council's Practice Note 10 (revised) require public sector auditors to give consideration to the risk of fraud over expenditure. As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. The nature and extent of expenditure means that there is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements	• Variance analysis on expenditure streams. • Detailed testing of expenditure transactions.	**Results** – We identified capital transactions which, instead of being capitalised, were included in revenue. These were simply errors. We did not identify any issues which would constitute a fraud risk. **Conclusion** – No fraud issues were identified.
3	**Portland House Lease** In 2019/20 a new lease has been entered into at Portland House. This lease had an associated cash incentive. This requires to be treated in line with SIC 15 / IAS 17. Due to the complexity and judgement involved in the accounting	• Evaluation of accounting treatment of the new lease, including the cash incentive element. • Assessment of the accruals associated with the new lease over the life cycle of the lease. • Assessment of the	**Results** – We identified a number of issues with the treatment of the new lease and associated disposals, new fixtures and fittings and the lease incentive. The accounting treatment was updated by the Commission with support from the Scottish Government.

Audit risk	Assurance procedure	Results and conclusions
treatment, and prior year errors in accounting for lease accruals, there is an increased risk of material misstatement.	preparation for the IFRS 16 guidance which will impact on this lease from 1 April 2020.	**Conclusion** – Following amendments to the accounting treatment, the lease is now correctly accounted for. Note that the introduction of the new accounting standard IFRS 16 has been postponed to 2021/22.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
4 Financial sustainability In the last three years, the Commission's expenditure has exceeded Scottish Government funding, and this has been covered by the use of reserves. It is anticipated that the Commission expenditure will exceed funding again in 19/20. Financial pressures include; • Legal costs are regularly higher than expected, and the Commission has little control over what these are due to the nature of the services provided. • Staff remuneration is now tied to the Scottish Government remuneration levels and therefore increases are outwith the control of the Commission. In addition, the pension contribution rate has also increased.	• Monitor the year end position for 2019/20 and the medium to long term plans in place for 2020/21 onwards. • Review communication between the Commission and its Sponsor Team about future funding arrangements.	**Results** - We reviewed the 2019/20 position and note that the Commission underspent its budget. Its original budget was £1059k but it also received £225k of additional funding from the Scottish Government. In addition, there has been a reduction of £34k in cash reserves. There has been an increase in the 2020/21 budget above what was included in the 3-year plan and this will help support increased lease and staff costs. **Conclusion** - The future remains challenging with 87% costs being fixed. This reduces the flexibility to adapt to future challenges and identify efficiency savings. Using cash reserves to support expenditure is not sustainable in the longer term.

Appendix 3

Summary of national performance reports 2019/20

2019/20 Reports

Report	Month	Report
	Apr	
Social security: Implementing the devolved powers	**May**	
Scotland's colleges 2019	**Jun**	Enabling digital government
	Jul	
NHS workforce planning - part 2	**Aug**	
Finances of Scottish universities	**Sept**	
NHS in Scotland 2019	**Oct**	
	Nov	
Local government in Scotland: Financial overview 2018/19	**Dec**	
Scotland's City Region and Growth Deals	**Jan**	Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
	Feb	
	Mar	Early learning and childcare: follow-up

Scottish Criminal Cases Review Commission

2019/20 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk