

Bòrd na Gàidhlig

Report to the Audit and Assurance Committee and the Auditor General for
Scotland on the 2020/21 audit

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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 Annual Report and Accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Assurance Committee ('the Committee') of Bòrd na Gàidhlig ('BnaG') for the year ending 31 March 2021 audit. The scope of our audit was set out within our planning report presented to the Committee in January 2021.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. As set out in our plan, we concluded that the full application of the wider scope is not appropriate and applied the "small body" clause set out in the Code which allows narrower scope work to be carried out. Our work in this area was limited to concluding on:
 - The appropriateness of the disclosures in **the governance statement**; and
 - The **financial sustainability** of BnaG and the services that it delivers over the medium-to-longer term.

We have also reviewed progress against the issues identified in our 2018/19 audit, providing a further update on the progress made by BnaG since our 2019/20 audit.



Introduction (continued)

The key messages in this report (continued)

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

Conclusions from our testing

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

The Performance Report and Accountability Report comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of BnaG.

The auditable parts of the Remuneration and Staff Report have been prepared in accordance with the relevant regulation, following adjustment for items identified in our audit, as set out on page 17.

A summary of our work on the significant risks is provided in the dashboard on page 9.

We have not identified any misstatements above our reporting threshold. We have identified two disclosure deficiencies, which management have corrected, as set out on page 31.

Status of the financial statements audit

Our audit is complete.

Conclusions on audit dimensions and best value

As set out on page 3, our audit work on the audit dimensions was limited to concluding on financial sustainability and the appropriateness of the governance statement. We have also provided a progress update on issues identified in previous audits.

Financial sustainability – BnaG achieved financial balance in 2020/21 and is expected to do so in 2021/22. The position over the medium term is more difficult. Given the lack of certainty surrounding any additional future funding and the fact that the majority of BnaG's costs are fixed and increasing (relating to staff costs and grant awards), the anticipated impact of COVID-19 on inflation and demand pressures, there is significant uncertainty surrounding the financial sustainability of BnaG.

Governance statement – The disclosures are appropriate and address the requirements of the Scottish Public Finance Manual and the Government Financial Reporting Manual ('FReM').

Progress update – The issues identified in the 2018/19 audit were far-reaching and identified weaknesses across the breadth of BnaG. In our view, the BnaG of present is substantially different to the organisation subject to the 2018/19 audit report. We have confidence that BnaG itself has the ability to identify the improvements it needs to make. We are also increasingly confident that it has the ability and desire to implement those changes. Given the long-term nature of change, the impact on outcomes and Key Performance Indicators ('KPIs') will take time to emerge fully, particularly moving beyond COVID-19. While we will continue to monitor these areas, we would caution that the absence of significant improvements in KPIs or perception-based measures, impacted as they have been this year by COVID-19, should not be seen as equating to the absence of improvement. This is a long-term project for BnaG, and the approach to continuous improvement being embedded will need time to deliver longer-term benefits with a measurable impact.

Introduction (continued)

The key messages in this report (continued)

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. We have provided the most relevant to BnaG as part of our Sector Developments on page 29 of this report.

Next steps

BnaG should consider the recommendations made in relation to budgeting and the Medium-Term Financial Plan ('MTFP') on page 20 for inclusion in its new Continuous Improvement Plan. We have provided an update against the Improvement Plan on page 21 and therefore do not include a separate 'Action Plan follow up' in this report.

Added value

Our aim is to add value to BnaG by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help BnaG promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report. In addition, we have included our "sector developments" on page 29 – where we have shared our research, informed perspective and best practice from our work across the wider public sector that is specifically relevant to BnaG.

Pat Kenny
Audit Director








Financial statements audit



Quality indicators

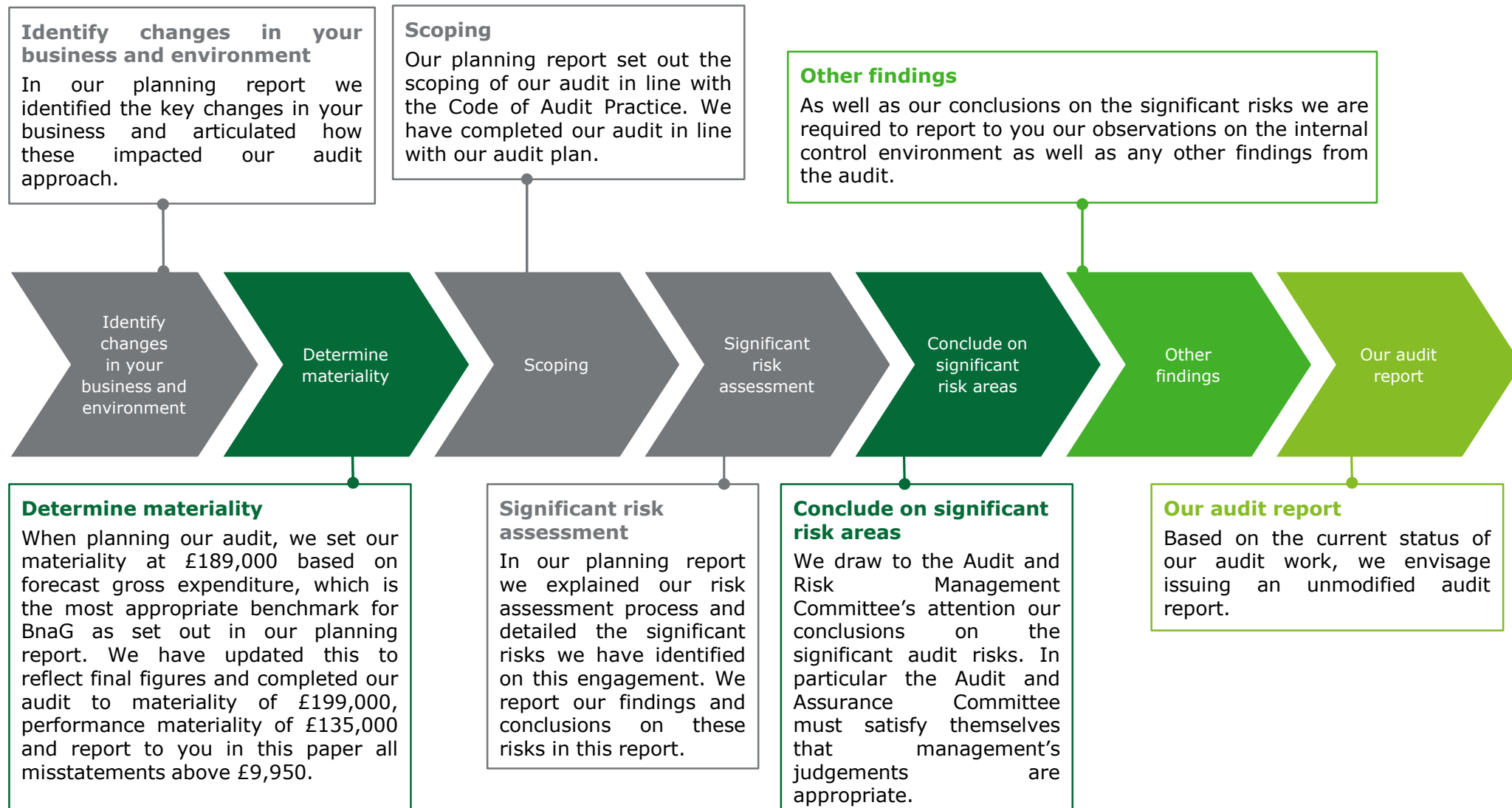
Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements		BnaG identified key accounting judgements (namely, pension liabilities) in a timely manner, and provided evidence to support these to audit in advance of the year-end audit work being carried out.
Adherence to deliverables timetable		Management provided all evidence in a timely manner, in advance of agreed timelines. Any follow-up requests during the audit were quickly actioned.
Access to finance team and other key personnel		Deloitte and BnaG have worked together to facilitate remote communication during the audit which has been successful. There have been no issues with access to the finance team or other key personnel. The transition between the previous Head of Finance and the current Head of Finance and Corporate Affairs was well managed.
Quality and accuracy of management accounting papers		Documentation provided has been of a high standard, which enabled an efficient audit. Working papers were clear and reconcilable to the Annual Report and Accounts. This is borne out by the resubmission rate on requests for the audit being low, at 3%.
Quality of draft financial statements		A full draft of the Annual Report and Accounts was received for audit on 1 June 2021. We identified numerous areas of good practice throughout, including a good level of signposting and cross-referencing to further information. We identified a small number of instances of non-compliance with the FReM, as set out on page 16. Overall, we made 30% fewer comments on the Annual Report and Accounts in 2020/21 compared to 2019/20.
Response to control deficiencies identified		We did not identify any significant control deficiencies.
Volume and magnitude of identified errors		We identified two disclosure misstatements, as set out on page 31. These have been corrected by management.







Our audit explained

We tailor our audit to your business and your strategy



Significant risks

Dashboard

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

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Operating within expenditure resource limits



Risk identified and key judgements

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with previous years, we do not consider this to be a significant risk for BnaG as there is little incentive to manipulate revenue recognition with the majority of revenue being from the Scottish Government which can be agreed to confirmations supplied.

We therefore consider the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. There is a risk is that BnaG could materially misstate expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position.

The significant risk is therefore pinpointed to the completeness of accruals and the existence of prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.



Deloitte response and challenge

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

- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
- Obtaining independent confirmation of the resource limits allocated to BnaG by the Scottish Government;
- Performing focused testing of accruals and prepayments made at the year end; and
- Performing focused cut-off testing of invoices received and paid around the year end.

Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers.

We confirmed that BnaG has performed within the limits set by the Scottish Government and therefore is in compliance with the financial targets in the year.

No issues were identified through our work.

Significant risks (continued)

Management override of controls



Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.



Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Report and Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgements and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates and judgements considered is provided on the next page; and
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

Significant and unusual transactions

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

Deloitte view

We have not identified any significant bias in the key judgements made by management.

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

Significant risks (continued)

Management override of controls (continued)

Key estimates and judgements The key estimates and judgements in the Annual Report and Accounts include those which we have selected to be significant audit risks around achievement of expenditure resource limits (page 10) and accounting estimates (page 11). These are inherently the areas in which management have the potential to use their judgement to influence the Annual Report and Accounts. As part of our work on this risk, we reviewed and challenge management’s key estimates and judgements including:

Estimate / judgement	Details of management’s position	Deloitte Challenge and conclusions
Accruals	Accruals relating to BnaG’s operating activities are estimated on the basis of existing contractual obligations and goods and services received during the year.	We have assessed this estimate through the performance of detailed testing, performing sample testing at a significant risk level on potential unrecorded liabilities (payments made and invoices received around the year-end) and accruals. Based on the testing performed, we have not identified any issues.
Pension Liability	BnaG participates in the Highland Council pension scheme and recognises a pension liability in relation to this. The liability is valued based on independent actuarial advice and is based on complex assumptions such as discount rates, inflation rates and mortality assumptions.	Given the quantum of the liability, we have noted this as an ‘other area of audit focus’ for reporting, on page 13. We have reviewed BnaG’s estimate, assessed the actuarial advice and engaged our own independent experts to assess the reasonableness of the estimate. We have not identified any issues through our work.

Other areas of audit focus

Defined benefits pension scheme



Background

BnaG participates in one defined benefits scheme:

- The Highland Council Pension Fund, administered by Highland Council.

The net pension liability has increased from £884,000 in 2019/20 to £1,546,000 in 2020/21. The increase is combination of an increase of £1,084,000 in the fair value of the assets and an increase of £1,746,000 in the liabilities as a result of demographic changes and financial assumptions.

BnaG's pension liability continues to be affected by the following legal cases:

- McCloud** – this case is in respect of possible discrimination in the implementation of transitional protections following the introduction of the reformed public services pension schemes from 1 April 2014 and 2015. The actuary has advised that an estimated allowance for McCloud has been included within the current service cost, consistent with the prior year. There is still uncertainty about the form of compensation that will be provided to members and therefore the final actual cost of complying with the ruling may be different to the estimate.
- Goodwin** – this is a legal challenge made against the Government in respect of unequitable benefits for make dependants of female members (based on service after 1988) following the earlier Walker ruling. The 31 March 2020 triennial funding valuation did not allow for the impact of Goodwin, therefore the BnaG's actuary has used the same percentage allowance that was used last year (0.1% of the liability).

Deloitte response

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work;
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown the table below;
- We have requested assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- We assessed the reasonableness of the BnaG's share of the total assets of the scheme with the Pension Fund financial statements;
- We have reviewed and challenged the calculation of the impact of the McCloud and Goodwin cases on pension liabilities; and
- We reviewed the disclosures within the accounts against the Code.

	BnaG	Comments
Discount rate (% p.a.)	2.0	Prudent end of reasonable range
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.85	Reasonable
Salary increase (% p.a.)	3.65	Real salary increases 0.8% above CPI inflation
Pension increase in payment (% p.a.)	2.85	Reasonable
Pension increase in deferment (% p.a.)	2.85	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	20.9	Prudent end of reasonable range
Mortality - Life expectancy of a female pensioner from age 65 (currently aged 45)	23.5	Prudent end of reasonable range

Deloitte view

We have not identified any issues through our work.

Other significant findings

Financial reporting findings

Below, we set out the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

BnaG has prepared its Annual Report and Accounts in line with the FReM. We have not identified any areas of non-compliance with accounting standards or good practice in our review of BnaG's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

Significant matters discussed with management:

Throughout the audit, we have held ongoing discussions with management on BnaG's response to COVID-19 and future plans, in order to assess the adequacy of disclosures in the Annual Report and Accounts and to update our understanding of the entity and risk assessment.

We will obtain written representations from the Board on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

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

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is relevant to the assessment of the continued existence of a particular body.



Emphasis of matter and other matter paragraphs

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

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



Other reporting responsibilities

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

Opinion on regularity

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

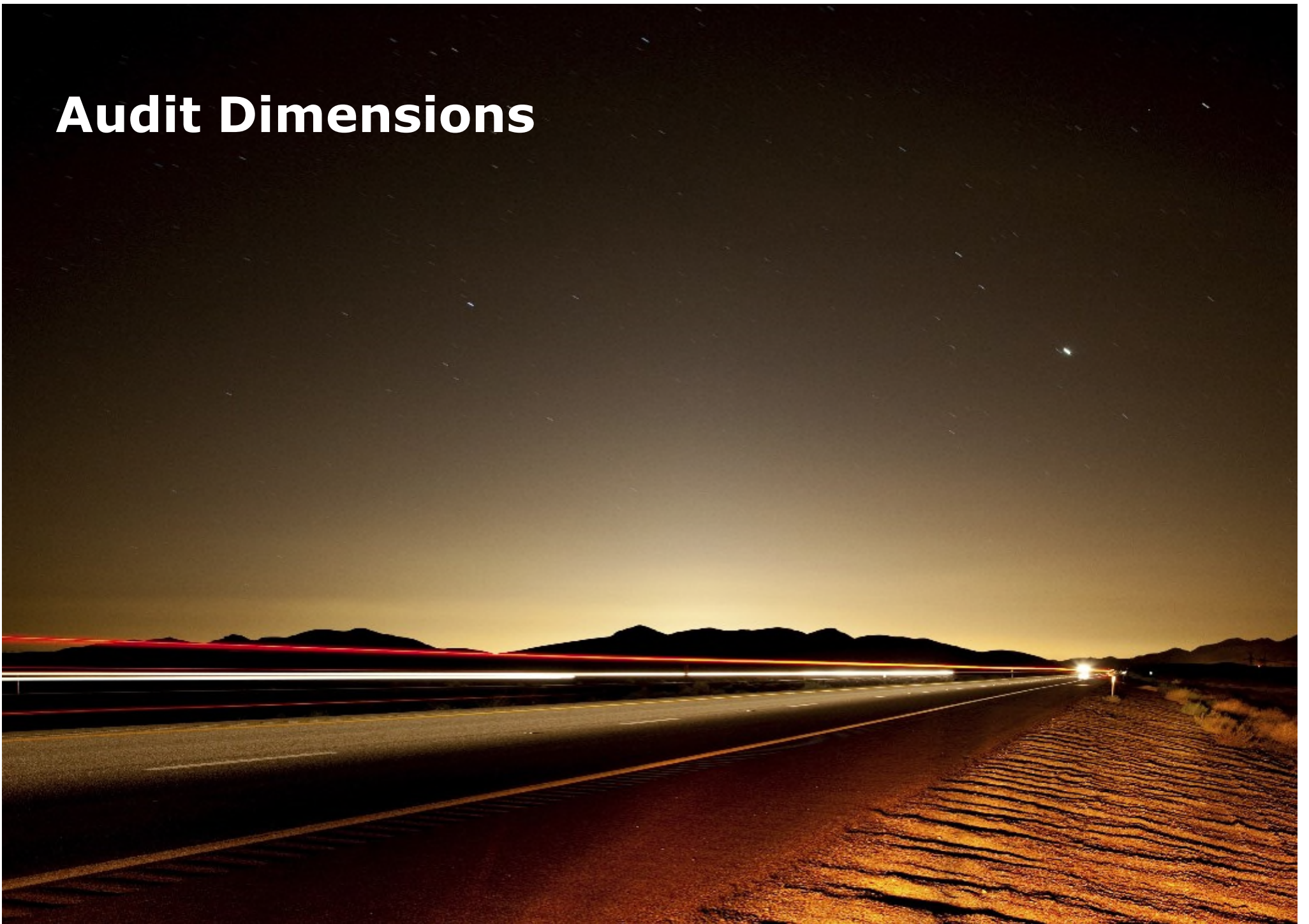
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 16.

Your Annual Report

We are required to provide an opinion on the auditable parts of the Remuneration and Staff Report, the Governance Statement and whether the Performance Report is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines BnaG's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by BnaG.	<p>We have assessed whether the Performance Report has been prepared in accordance with the Accounts Direction. We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>As explained on page 7, there are several areas of good practice demonstrated throughout the Performance Report. We identified a few minor areas for improvement which have been actioned by management.</p>
The Accountability Report	Management have ensured that the Accountability Report meets the requirements of the FReM, comprising the Governance Statement, Remuneration and Staff Report and the Parliamentary Accountability Report.	<p>We have assessed whether the information given in the Governance Statement is consistent with the financial statements and has been prepared in accordance with the Accounts Direction. No exceptions have been noted.</p> <p>We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provided management with minor comments and suggested changes and have received an updated version reflecting these changes.</p> <p>We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that they have been prepared in accordance with the Accounts Direction. Two adjustments have been identified as set out on page 31. These have been corrected by management.</p>
Going Concern	Management has made appropriate disclosure relating to going concern matters.	<p>We have confirmed that the 2021/22 budget was approved by BnaG in February 2021. We have concluded that the plan is sufficiently robust to demonstrate that BnaG will be a going concern for 12 months from signing the Annual Report and Accounts.</p> <p>We requested that management specifically disclosed their considerations in relation to the impact of COVID-19 on the ability of BnaG to operate as a going concern in the going concern disclosure in the Annual Report and Accounts. This disclosure has been appropriately included.</p>

Audit Dimensions



Audit Dimensions

Overview

As set out in our audit plan presented to the Committee in January 2021, public audit in Scotland is wider in scope than financial audits. Our report sets out our findings and conclusions on our audit work covering the areas set out below.

- The appropriateness of the disclosures in the **governance statement** (which is discussed on page 16); and
- The **financial sustainability** of BnaG and the services that it delivers over the medium-to-longer term.

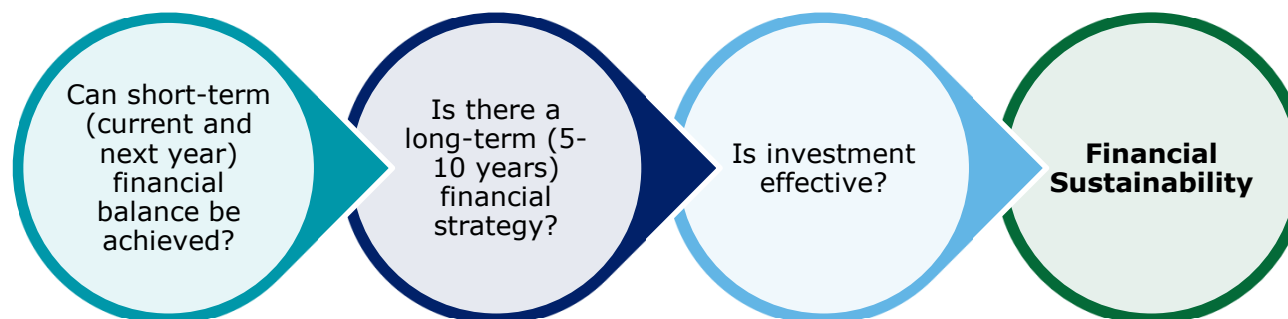
In 2018/19 and 2019/20, we applied the full wider scope in our audit of BnaG. We concluded that this was not necessary in 2020/21 and having reviewed our risk assessment, remain satisfied that this is an appropriate conclusion. We have reviewed progress by BnaG in addressing the issues identified in our 2018/19 audit, which were initially followed up in 2019/20.

In addition to the above, we have reviewed BnaG's arrangements for the **prevention and detection of fraud and irregularities**. Overall we found BnaG's arrangements to be effectively designed and appropriately implemented.

The internal audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

Financial sustainability

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



Audit Dimensions (continued)

Financial sustainability

Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we identified the following risk:

- BnaG faces a challenging medium-term financial position with increased cost pressures over the medium term, with no certainty of additional funding being made available to cover the increase. As such there is a risk that BnaG may not be in a position to continue to deliver planned services over the medium-term.

Short-term financial planning

2019/20 conclusion: BnaG achieved a breakeven position through identification and monitoring of savings throughout the year. The final position of BnaG was an underspend against the budgeted allocation of £75k (1.5%). Based on the historical evidence, underspend and carried forward funding from 2019/20 to 2020/21 (approved by the Scottish Government), we were satisfied that BnaG could achieve short-term financial balance in 2020/21.

2020/21 update: In 2020/21, BnaG's Grant in Aid allocation was increased by £175k (3%) during the year. The final outturn was an overspend of £81k (2019/20: underspend of £75k), with approval received from the Sponsor Division for this.

Management presented the draft budget for 2021/22 to the Board in February 2021. BnaG are projecting a break even position in 2021/22. BnaG are projecting that they will reach the running costs 'cap' indicated in the funding letter from the Scottish Government in 2021/22, and remain at that cap for each year thereafter to 2025/26.

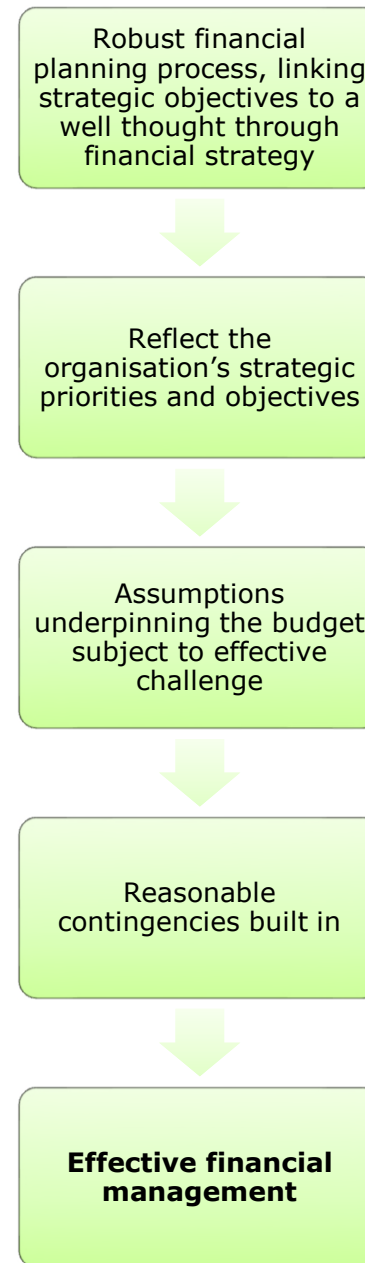
The budget does not set out any savings targets to be achieved in the year, nor are cost efficiencies referred to, although there is an acceptance that there is "pressure to stay within the running costs budget". The budget in 2021/22 does not set out the assumptions which underpin it, which differs from budgets presented in previous years.

The budget makes reference to them MTFP. However, there are inconsistencies between the two, for example in the level of staff costs required over the period to 2025/26. These inconsistencies, while small, highlight the importance of setting out assumptions and risks associated with these.

The budget has been enhanced in the year to explicitly link development spent with specific Corporate Plan aims. As BnaG is an outcome-focussed organisation by nature, these explicit links to the Corporate Plan and the outcomes the budget expects to progress with the resources expended enable the Board to scrutinise whether the focus being placed on BnaG's priorities is appropriately resourced.

2020/21 conclusion: As with previous years, BnaG are projecting to achieve short term balance in 2021/22. We are satisfied that the budget and monitoring is sufficiently robust and BnaG has sufficient experience in managing its budget to achieve short-term financial balance in 2021/22.

Improvements in linking the budget with the Corporate Plan in the year are welcome, and enable an increased focus on outcomes achieved for resources expended. While reviewing the format of the budget to ensure it remains relevant and appropriate to users' needs is positive, it is important for openness and transparency to ensure that the budget paper presented to the Board contains all the information necessary to enable appropriate scrutiny prior to approval – for example, assumptions, savings targets, links to the MTFP, and key risks.



Audit Dimensions (continued)

Financial sustainability (continued)

Medium-to long-term financial planning

2019/20 conclusion: BnaG developed a MTFP in 2019/20. Based on BnaG's MTFP, BnaG's additional funding needs to implement its workforce plan will increase from £nil in 2020/21 to £0.73m in 2021/22, growing to £1.16m by 2024/25. However, BnaG prepared a balanced five year budget, based on static funding. Given inflation – including staff costs, based on historical trends and current projections – will be approximately 13% in that period and will therefore effectively represent a real terms cut in funding, we have concerns about the reasonableness of the budget assumptions and the achievability of a breakeven position over the medium-term.

Given the significant changes since the draft MTFP was prepared - including the COVID-19 pandemic - the MTFP needed to be significantly revised within 2020/21.

2020/21 update: In line with our recommendation during the 2019/20 audit, management has reviewed the standalone MTFP in the year, which covers the period to 2025/26. The MTFP clearly sets out the reason for the plan, the high-level assumptions used, the body's financial projections over the period and the key risks associated with the plan.

The MTFP does not make reference to BnaG's workforce or link with the Workforce Plan, although it notes that the MTFP incorporates staffing levels proposed in the Organisation Review. The MTFP does not link the body's financial plans with the Corporate Plan, which differs from the approach adopted in developing the budget.

The MTFP is underpinned by various key assumptions – for example, pay increases, inflationary pressures, static income from the Scottish Government. However, these assumptions are not quantified (for example, it is not clear what inflation rate has been used) and could be presented in a clearer manner, including the risks associated with them (for example, the MTFP notes that “increased inflation” is considered a low risk, although without knowing the rate assumed, it is difficult to assess the accuracy of that statement).

The MTFP helpfully sets out scenario analysis, with the 'middle case' scenario assuming ongoing static funding from the Scottish Government. In this scenario, BnaG would be required to gradually reduce its operations from present levels, which would require further consideration of priorities for the Board. The MTFP does not highlight a 'funding gap' in this situation, although it is also not clear from the MTFP how much in savings by further prioritisation and reduction in operations will be needed in this scenario.

2020/21 conclusion: It is positive to note the revision of the MTFP in the year, in line with our prior year audit recommendation. Further improvements to the MTFP should be made, including:

- Quantifying the funding gap (if any) in the period covered under the various scenarios; and
- Clearly setting out the assumptions underpinning each scenario, how they interlink and their impact on the medium-term position.

Based on the MTFP, BnaG are in a financially sustainable position, although there is significant uncertainty attached to this given BnaG's reliance on Scottish Government funding and the ongoing impact of COVID-19.

Workforce Planning

2019/20 conclusion: In many areas, the Workforce Plan was in line with guidance on good practice. However, the objectives and actions remained generally high level and required refinement - moving away from 'ongoing' targets that focus on what 'we will' do, towards specific timeframes and targets and implementation of changes. Further, there needed to be greater focus on succession planning within the organisation, the current workforce gaps that exist in the organisation and the forecast gaps in future years (with options for closing those gaps set out clearly).

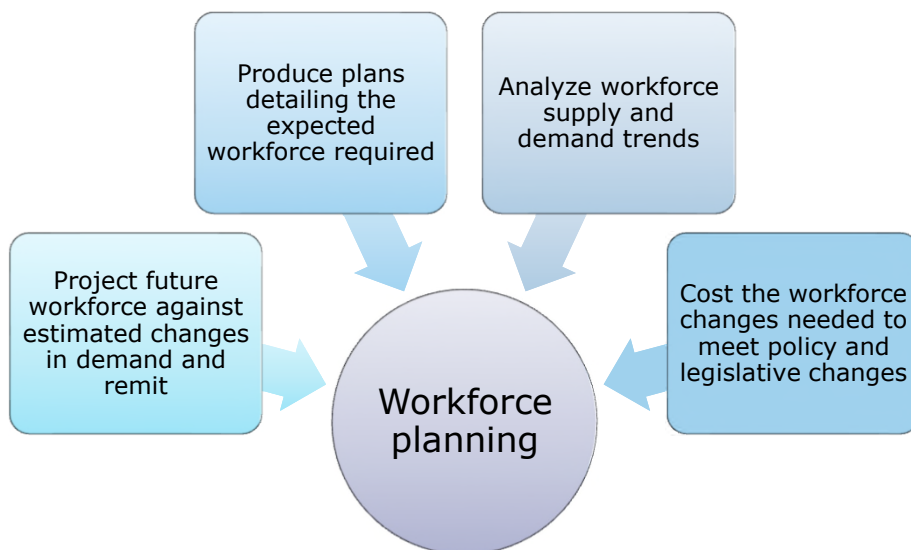
Audit Dimensions (continued)

Financial sustainability (continued)

Workforce Planning (continued)

2020/21 update: In 2020/21, BnaG revised its Workforce Plan in line with the recommendations made in the 2019/20 audit. The Workforce Plan clearly links the workforce of the organisation to the Corporate Plan, identifies future workforce requirements and sets out how those positions may be filled, highlights risks with budget changes and succession planning, and sets out key priorities for the Board with regards to the workforce. There is a clear 'action plan' included in the Workforce Plan which sets out which actions will be completed in 2020/21 and 2021/22.

2020/21 conclusion: The Workforce Plan developed by BnaG is robust, and identifies clear priorities to be delivered within 2021/22. As set out on page 23, we have specifically considered the structure and resourcing of the Leadership Team and on page 24 we have considered responses to staff surveys. As set out therein, there has been continuous improvement from 2018/19 through to 2020/21, which we welcome.



Deloitte view – Financial sustainability

As discussed on page 19, BnaG achieved financial balance in 2020/21 and is expected to do so in 2021/22. Improvements can be made to the budget to provide further clarity for the Board and stakeholders of the key assumptions and risks underpinning the budget.

The position over the medium term is more difficult. While BnaG is forecasting a breakeven position over the period to 2025/26, this assumes 'gradual' reductions in operations and reconsideration of priorities unless additional funding is received from the Scottish Government. Given the lack of certainty surrounding any additional future funding and the fact that the majority of BnaG's costs are fixed and increasing (relating to staff costs and grant awards), the anticipated impact of COVID-19 on inflation and demand pressures, there is significant uncertainty surrounding the financial sustainability of BnaG.

We welcome the improvements in BnaG's MTFP and Workforce Plan in the year. Further improvements are required to the MTFP, although we consider that the Workforce Plan is in line with good practice and sufficiently robust to continue the improvements which have been made in relation to the workforce in recent years.

Audit Dimensions (continued)

Progress Update

Background

In 2018/19, we expanded our audit work to cover the 'full' wider scope, being: financial sustainability; financial management; governance and transparency, and value for money. That year, we made 44 recommendations arising from our work. These were consolidated by BnaG into an Improvement Plan, which split these recommendations for internal monitoring purposes into 72 recommendations.

In 2019/20, we followed-up on progress with the implementation of these recommendations. In total, 54 of the 72 recommendations were implemented. We considered whether there was sufficient evidence of improvement – irrespective of whether the recommendation had been implemented – and concluded that in 86% of areas, there was. Our work in 2019/20 identified further areas for improvement, with these subsequently added by BnaG to the Improvement Plan.

In 2020/21, we have concluded that it is no longer appropriate to apply the 'full' wider scope. Consequently, our work is limited to reviewing financial sustainability (pages 19 – 21) and the appropriateness of the governance statement (page 16). In addition to this, we have provided an update for the Committee on progress against the following areas:

- The Improvement Plan overall;
- Clarity over roles and responsibilities within BnaG;
- Engagement with stakeholders;
- Pace of improvement;
- Monitoring the use of grant funding;
- Competence and capacity of the Board and Committee; and
- Resourcing and structure of the Leadership Team.

We have provided this update to give independent assurance on progress overall, whilst specifically addressing the key issues identified in our previous audits which were also of specific concern to BnaG and the Scottish Parliament's Public Audit and Post-Legislative Scrutiny Committee.

Improvement Plan

The Improvement Plan continues to be reviewed on a monthly basis by the Leadership Team. Updates are provided to the Improvement Plan Steering Group and through them, to the Committee and Board. The structure of the Improvement Plan was revisited in 2020/21 to ensure it remained appropriate for BnaG. In 2021/22, BnaG considered how best to embed continuous improvement within the organisation, potentially without the onerous governance structures set out above, with the consequent development of a 'Continuous Improvement Plan'. This is a welcome development – the Improvement Plan was a product of its time, designed to move BnaG to consider improvement more holistically across the organisation. As BnaG has demonstrated that ability, there is wider expertise within the organisation to move to a more fluid continuous improvement plan.

Of the 18 recommendations which we noted as outstanding in 2019/20, 10 of these had been addressed before the revised Improvement Plan was developed (November 2020). Of the remaining 8, all but 1 have now been addressed. The outstanding recommendation relates to performing a consultation on the approach to delivering grant funding when preparing for the next set of multi-year agreements. This has not been completed due simply to timing. This means that 71 of the original 72 recommendations on the Improvement Plan have now been actioned.



■ Recommendations Completed ■ Recommendations Outstanding

Throughout 2020/21, BnaG has updated the Improvement Plan with additional actions – including those identified through our 2019/20 audit. By the end of 2020/21, there were 15 open items on the Improvement Plan. BnaG is on track to implement these changes by the end of 2021. BnaG engaged internal audit to review its implementation of the Improvement Plan in the year, which concluded that there is sufficient evidence to appropriately confirm the status of completed actions, and that where actions are yet to be completed, BnaG has taken appropriate steps to ensure their completion.

Audit Dimensions (continued)

Progress Update (continued)

Improvement Plan (continued)

Overall, we are satisfied that the recommendations we have made through our 2018/19 audit – with further areas identified in 2019/20 – have been captured by BnaG’s Improvement Plan and have been appropriately addressed through it. Going forward, as BnaG moves to a more mature approach to embedding continuous improvement, we are satisfied that future audits can move to the ‘normal’ approach of considering progress against specific audit recommendations only, rather than against the Improvement Plan (or equivalent) overall.

Clarity of roles and responsibilities

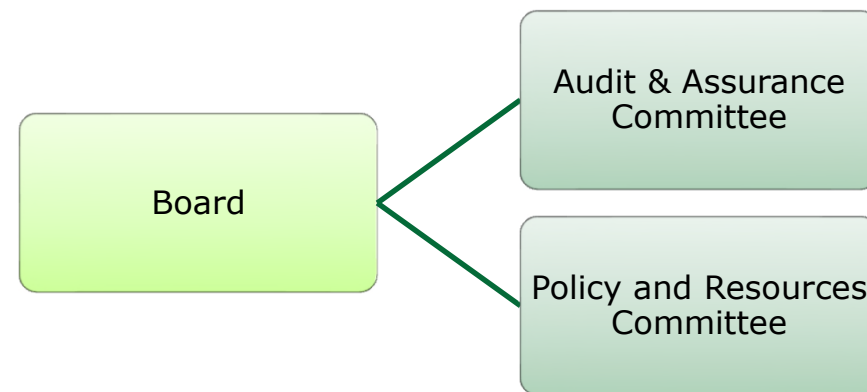
In 2018/19, our audit identified issues with the clarity of roles and responsibilities of Board members, the Leadership Team and the Sponsor Division. We noted in 2019/20 that the pace of change being implemented exposed ongoing issues with the Board’s understanding of its roles and responsibilities.

In February 2021, BnaG’s Framework Document was updated to reflect the relationship between the organisation and the Scottish Government, and reflects good practice. Terms of Reference of all Committees were also considered in the year.

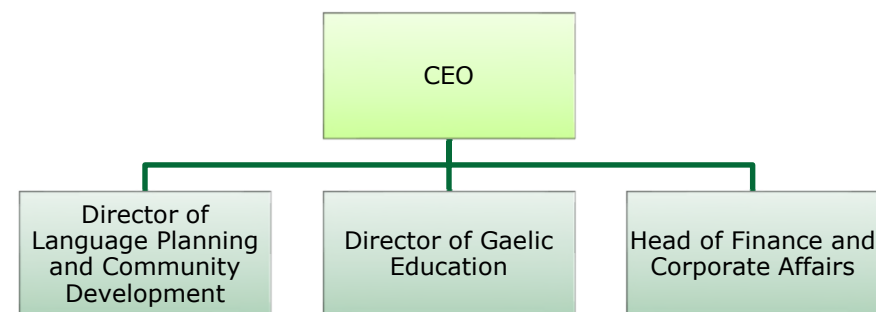
During the year, additional training was arranged for the Board on relevant matters to address the concerns we noted in previous audits – namely, training on ‘On Board’, training on the role of the Board, strategy and effective governance, and training on challenge and an effective Audit Committee. A self-assessment has not been carried out by the Board, with this due in 2021/22. An annual externally-led self-assessment of the Audit and Assurance Committee is now carried out, with this identifying no significant issues in the year. Additionally, a review of Corporate Governance was carried out by internal audit in 2020/21, which concluded that the governance structure is streamlined and reflects BnaG’s strategic goals. While 5 recommendations were made, none of these were ‘high’ priority, and 7 areas of good practice were identified.

Through our ongoing communications with BnaG, attendance at Committee and Board meetings and review of all meetings in the year, we have not identified any instances which indicate a lack of understanding, clarity or adherence to roles and responsibilities. The actions taken by BnaG – reviewing the relevant documents, undertaking additional training, carrying out self-assessments and arranging an internal audit – are sufficient and appropriate to address the issues we identified, and we no longer consider this to be an ongoing issue.

Governance Structure



Leadership Structure



Audit Dimensions (continued)

Progress Update (continued)

Engagement with stakeholders

In 2018/19, we concluded that significant improvements were needed in how BnaG engaged both internally with its staff and externally with relevant stakeholders. In 2019/20, we welcomed improvements in this area, but noted that further improvements were needed.

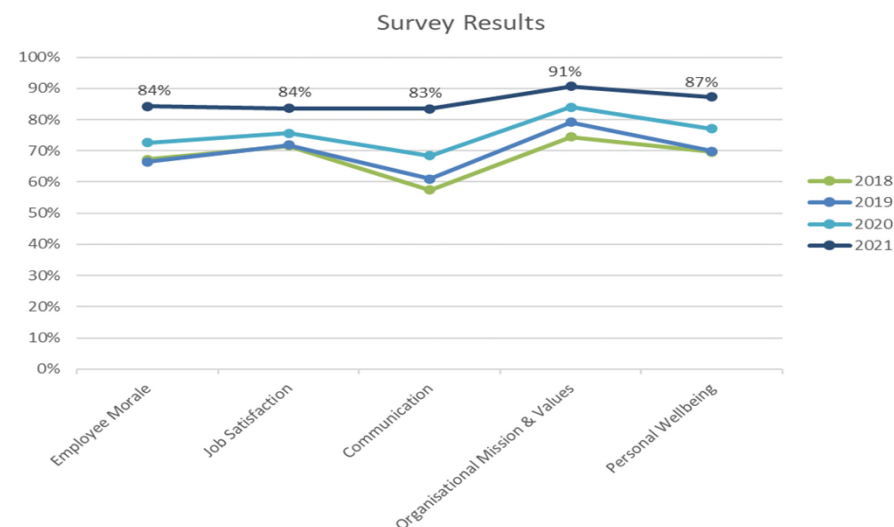
Throughout 2020/21, BnaG held monthly meetings with the Chief Executives of significant Gaelic organisations (including MG Alba and Sabhal Mòr Ostaig) to enhance collaboration. Additionally, consultations were carried out on strategic funding, on the draft Gaelic Language Plan, and on young people's views on Gaelic. These consultations were enhanced through the use of focus groups run by BnaG on similar themes. BnaG has also enhanced its use of social media and press releases in the year, following the appointment of a Communications Officer. In early 2021/22, BnaG has undertaken a stakeholder survey (the results of which are not yet available), and has arranged public meetings on the next National Gaelic Language Plan.

Having considered the size and scope of BnaG, the relevant stakeholders and the organisation's remit, we are satisfied that the approach to stakeholder engagement demonstrated in 2020/21 and carried into 2021/22 evidences an increasingly mature and continuously improving appreciation of its importance. The use of different methods of engagement – scheduled meetings, open public meetings, focus groups, online surveys, social media – to understand stakeholder views is welcome.

Pace of improvement

In 2019/20, we noted that 54 actions on the Improvement Plan were implemented. In 2020/21, a further 52 actions were implemented, with 15 actions remaining open. This demonstrates that between our 2018/19 audit and the end of 2020/21, BnaG had identified a further 49 areas of improvement (through internal processes, external audit and other external reviews). The level of completion of actions – and the consistency of that rate of delivery – is commendable, and is evidenced through appropriate reporting to the Board and independent assurance (through both internal audit and external audit).

Between 2018/19 and 2020/21, evidence of the impact of the changes implemented can be seen across BnaG. For example, the level of sickness absence has dropped from 4.3% to 2.4%. Staff survey scores have improved each year, from an average of 70% in 2018/19 to an average of 86% in 2020/21. While not directly comparable, for context, the average (mean) score across the Civil Service is 73%.



Since the 2018/19 audit, there have been significant changes to the governance structure within BnaG, which has been reviewed by internal audit and which has been assessed as being improved, also evidenced through self-assessments carried out by BnaG. Improvements in openness and transparency have also been significant, with all Committee and Board meetings now being held in public, with these advertised on BnaG's website and through its social media channels.

In our view, the BnaG of present is substantially different to the organisation subject to the 2018/19 audit report. There has been a fundamental overhaul of the organisation's governance structure and Leadership Team. There has been a significant shift in its approach to openness and transparency. There has been an increased focus on communication and longer-term planning. The organisation actively seeks issues out while looking for ways to improve. None of these changes should be understated. The pace of improvement – with consequent impacts on staff and stakeholder perception, and the effectiveness of governance and leadership – is to be commended. The appointment of an external Change Management expert in 2021/22 to embed BnaG's developing approach to continuous improvement provides further assurance that BnaG aims to maintain this pace.

Audit Dimensions (continued)

Progress Update (continued)

Monitoring the use of grant funding

In 2018/19, we recommended that BnaG should review the multi-year grant funding agreements it had reached with Gaelic organisations to ensure they are linked to the Corporate Plan, and include KPIs to monitor performance. In 2019/20, BnaG engaged with the relevant organisations to review the agreements and agree relevant KPIs. We concluded in 2019/20 that we were satisfied with the design of the arrangements.

In 2020/21, there has been significant reporting to the Board on the performance of the funded organisations against the agreed indicators, with clear links to the Corporate Plan and progress being made on the delivery of outcomes. The detail contained within these monitoring reports clearly evidences the decision making process in releasing further payments under the agreement and is sufficient to evidence that the agreements are delivering improved outcomes.

In 2018/19, we noted that while there were no issues with the multi-year agreements in principle, there was a need to consider performance of these agreements and the delivery of outcomes through them against the relative performance of small, ad-hoc grants issued to other organisations. Management confirmed they are in the process of developing a methodology to address this recommendation, and this will be addressed through a comprehensive review prior to agreement of the next multi-year agreements.

Competence and capacity of the Board and Committee

At the time of the 2018/19 audit, the Board consisted of 11 members. It currently consists of 7 members. Of the 11 members in place at the time of the 2018/19 audit, 6 are no longer with the organisation. Both of the 2 new Board members appointed have recent and relevant financial experience, which addresses a skill gap which was identified in previous audits.

As set out on page 21, there has been extensive training provided to the Board since our 2018/19 audit, with notable improvements in self-assessment scores and with internal audit identifying improvements in the interim.

Consideration of the capacity of Board members is an ongoing issue for BnaG, given the reduction in Board members and the workload associated with the position. We are aware that this is an area which the Board is actively considering. We have not identified any significant issues arising from lack of capacity in terms of the delivery or operation of governance in the year.

Resourcing and structure of the Leadership Team

At the time of publishing the 2018/19 audit report, the Leadership Team consisted of the Chief Executive, Director of Language Planning and Community Development and the Head of Corporate Services. The Director of Gaelic Education was vacant since July 2018, with the Head of Communications and Promotions vacant from December 2018. There have been numerous changes since that date, with only the Chief Executive and Director of Language Planning and Community Development remaining in post.

The Leadership Team currently consists of the Chief Executive, Director of Language Planning and Community Development, Director of Education, and Head of Finance and Corporate Affairs. An Executive Assistant was appointed to provide administrative support to the Leadership Team, with these responsibilities now being assumed within a graduate apprentice role.

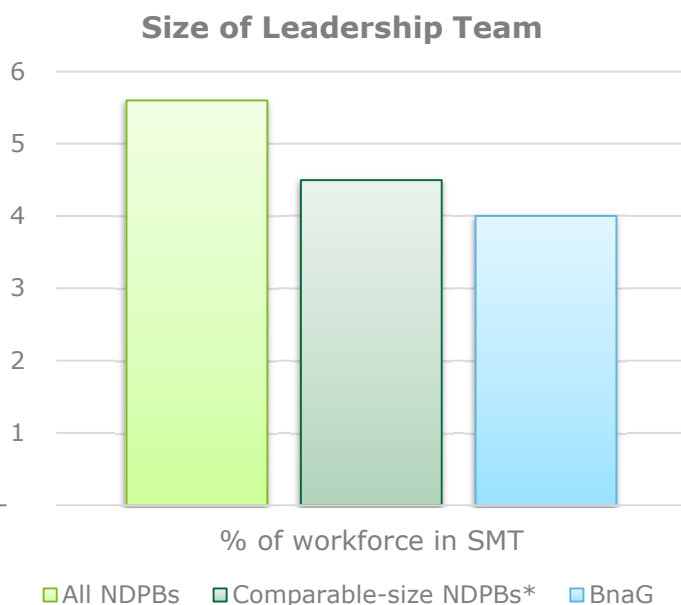
An additional layer of management has been created to help address the issues with the 'flat' structure identified in 2018/19 and aid with succession planning. This includes an Education Manager and an Operations Manager. A Communications Officer has also been appointed, addressing a key issue identified in our 2018/19 audit – namely, poor communication with staff and stakeholders.

Audit Dimensions (continued)

Progress Update (continued)

Resourcing and structure of the Leadership Team (continued)

In 2020/21, an independent review of the structure of the Leadership Team was carried out, which supports the structure now in place. We have compared the structure of BnaG against other Non-Departmental Public Bodies in Scotland, noting that the revised structure of 4 members of the Leadership Team is in line with the norm across Scotland – the average size of Leadership Teams for organisations with less than £10m of expenditure/less than 100 full-time equivalent staff is 4.5.



*NDPBs with <£10m of expenditure or <100 whole-time equivalent staff deemed to be 'comparable-size'

Deloitte view – Progress update

The issues identified in the 2018/19 audit were far-reaching and identified weaknesses across the breadth of BnaG, which had gone unreported and unaddressed for a number of years.

In our view, the BnaG of present is substantially different to the organisation subject to the 2018/19 audit report. There has been a fundamental overhaul of the organisation's governance structure and leadership team. There has been a significant shift in its approach to openness and transparency. There has been an increased focus on communication and longer-term planning. The organisation actively seeks issues out, looking for ways to improve. None of these changes should be understated.

Given the long-term change required, the full benefits of the the improvements made and embedded will emerge over time. This year, the organisation's KPIs have been impacted by COVID-19, and therefore it is not immediately clear if the changes already implemented have had a significant impact on KPIs, outcomes and perceptions. This will become clearer in the coming years, and needs to be monitored by BnaG to reflect on whether changes are having the desired impact and to make appropriate changes where they are not. However, the early signs – for example, through staff surveys – are positive.

We have confidence that BnaG has the ability to Identify itself the improvements it needs to make. We are also increasingly confident that it has the ability and desire to implement those changes. This confidence is reinforced by the recent appointment of an external Change Management expert and BnaG embedding continuous improvement throughout the organisation.

As set out above, the issues identified will take a period of time to address fully, with the impact of the far-reaching improvement on outcomes and Key Performance Indicators ('KPIs') will take a period of time to emerge fully. While we will continue to monitor these areas, we would caution that the absence of significant improvements in KPIs or perception-based measures, impacted as they have been by COVID-19, should not be seen as equating to the absence of improvement. This is a long-term project for BnaG, and the approach to continuous improvement being embedded may need time to deliver longer-term benefits with a measurable impact.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Assurance Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report;
- Our internal control observations; and
- Other insights we have identified from our audit.

The scope of our work

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

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for BnaG, 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.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit and Assurance Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

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 | 20 September 2021

Sector developments



Scottish Futures Trust - New Frontiers for Smarter Working, Work and Workplace post COVID-19

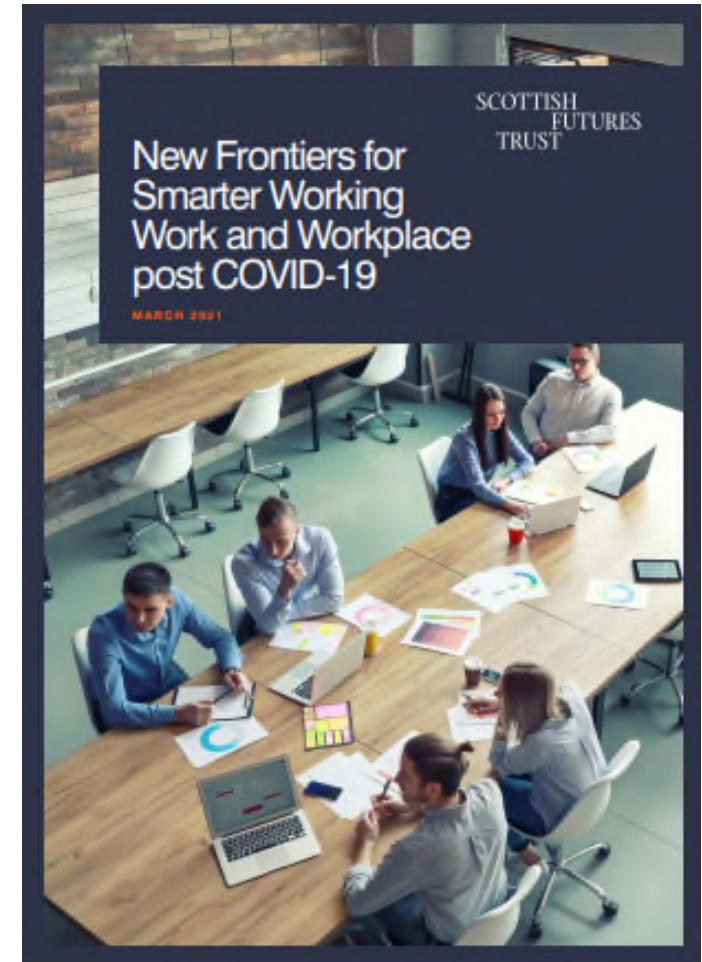
Background and overview

COVID-19 has fast-tracked a social revolution where a wider range of working choices could be on the horizon for hundreds of thousands of workers.

A new report by infrastructure experts, the Scottish Futures Trust reveals that the workforce of the future - predominantly those who have been office based - will want to make informed choices of where and how to work most productively and more beneficially for their wellbeing.

Post the pandemic, organisations should consider the three 'Hs' of working - from Home, a nearby hub or local location, where employees can meet clients or have time to concentrate on projects, or the HQ and head office, where people can gather to socialise, brainstorm ideas or collaborate face-to-face.

The "New Frontiers for Smarter Working, Work and Workplace Report" also finds that this new blended future will depend on how employers gauge the benefits from the improved working set up while ensuring the wellbeing of employees.



Next steps

The report reveals a new future for best work, productivity and wellbeing. The full report is available at https://www.scottishfuturestrust.org.uk/storage/uploads/new_frontiers_report_march2021.pdf

Appendices



Audit adjustments

Disclosures

Disclosure misstatements

The following disclosure misstatements have been identified up to the date of this report which management have corrected as required by ISAs (UK).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<i>Remuneration and Staff Report – Various disclosures</i>		
<p>Our initial review of the Draft Annual Account and Report highlighted that the following disclosures were missing or incomplete:</p> <ul style="list-style-type: none">• FReM 6.5.16(e) – Staff turnover percentage;• FReM 6.15.16(f) – Staff survey scores; and• FReM 6.15.16(g) – Staff policies applied during the year.	<p>FReM 6.5.16 – Entities are required to provide qualitative and quantitative information on staffing.</p>	<p>Qualitatively material – important for the users’ understanding of staff retention and perception.</p>
<i>Remuneration and Staff Report – Leadership Team</i>		
<p>During our testing of the salary bandings of the leadership team, we identified an instance where a leadership team member’s salary banding was incorrectly disclosed. The error occurred due to the member’s salary being calculated on an annualised basis rather than on an actual basis.</p>	<p>FReM 6.5.8 – Entities are required to disclose remuneration in prescribed bandings.</p>	<p>Qualitatively material – important for the users’ understanding of the leadership team remuneration.</p>

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

As auditor, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked BnaG to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity or group.

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



Audit work performed:

In our planning we identified the risk of fraud in relation to operating within the expenditure resource limit and management override of controls as a key audit risk for your organisation.

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

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

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 BnaG and our objectivity is not compromised.

Fees

The audit fee for 2020/21, which increased from that communicated in our planning paper due to the application of additional wider scope requirements, is £20,58 as analysed below:

	£
Auditor remuneration	17,228
Audit Scotland fixed charges:	
Pooled costs	2,320
Audit support costs	510
Total fee	20,058

We have still to assess any impact the additional testing as a result of COVID-19. Once completed, we will discuss any impact on the fee with management.

No non-audit services fees have been charged for the period.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.



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