Scottish Legal Complaints Commission

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

Issued on 23 September for the meeting on 5 October 2021

Contents

Introduction

The key messages in this report

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

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

I have pleasure in presenting our final report to the Scottish Legal Complaints Commission ("the Commission") for the year ending 30 June 2021 audit. The scope of our audit was set out within our planning report presented to the Commission in April 2021.

This report summarises our findings and conclusions in relation to:

- The audit of **the annual report and financial statements**; and
- Consideration of the wider scope requirements of public sector audit. As set out in our plan, in line with previous years, we have 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. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. Our work in this area was restricted to concluding on:
    - The appropriateness of the disclosures in **the governance statement**; and
    - The **financial sustainability** of the Commission and the services that it delivers over the medium to longer term.

Introduction (continued)

The key messages in this report (continued)

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

Conclusions from our testing

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

Following updates made by management, the performance report and accountability report comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Commission.

The auditable parts of the remuneration and staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 9. The Commission met its financial targets for 2020/21.

Two corrected misstatements, in excess of our reporting threshold of £6,250, has been identified during the course of our audit. This is shown in the Appendix to this report.

Status of the financial statements audit

Our audit work is complete.

Conclusions on audit dimensions

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

Financial sustainability – As with previous years, the Commission are projecting to achieve short term balance in 2021/22. The budget setting process has captured the key drivers of movement since 2020/21 incorporating macroeconomic factors such as Brexit and the impact of COVID-19.

The Medium Term Financial Plan (MTFP) could be improved through covering a period beyond 2023/24, quantifying the potential financial impacts of various scenarios and through linking in with the workforce plan.

We are satisfied that the Commission have considered the future workforce needs through the formalised workforce plan. The workforce plan can be further expanded to discuss succession planning and to explore potential internal and external career pathways.

Our detailed findings and conclusions are included on pages 18 to 22 of this report.

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 a summary of those most relevant to the Commission as an Appendix on page 26 of this report.

Next steps

An agreed Action Plan is included in the Appendix on pages 30 to 31 of this report, including a follow-up of progress against prior year actions. We will consider progress with the agreed actions as part of our 2021/22 audit.

Added value

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

This is provided throughout the report. In addition we have shared FRC narrative reporting themes and guided the Commission through the new remuneration report requirements brought in by the 2020/21 FReM.

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	!	The management paper initially provided for the dilapidations provisions was inadequate and did not sufficiently consider all the requirements of IAS 37. This was received during the audit process and as noted on page 12, an error of £17,256 was identified.
Adherence to deliverables timetable		The audit of the annual accounts progressed largely in line with the original timescale. The receipt of the draft financial statements and notes to the accounts were provided on 12 August 2021 in accordance with the agreed timetable. On Deloitte Connect, 83% of requests were provided on time, with 56% of requests provided early.
Access to finance team and other key personnel		Deloitte and the Commission have worked together to facilitate remote communication during the audit which has been successful.
Quality and accuracy of management accounting papers		We did not identify any issues with the quality or accuracy of management accounting papers which were reviewed by the audit team.
Quality of draft financial statements		A full draft of the annual report and accounts was received for audit on the 12 August 2021. Whilst generally compliant with the reporting requirements, amendments were required in relation to the disclosures on the dilapidation provision and new requirements within the Remuneration Report (discussed on page 29).
Response to control deficiencies identified		There have been no control deficiencies identified in the current year.
Volume and magnitude of identified errors		We have identified one immaterial classification misstatement and a misstatement within dilapidations, which were corrected by the Commission.

! Lagging ! Developing Mature

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. We would like to draw to your attention to our other findings detailed on 30 and the progress against our 2019/20 findings on page 31.

Determine materiality

When planning our audit we set our materiality at £130k based on forecast gross expenditure. We have updated this to reflect final figures and completed our audit to materiality of £125k, performance materiality of £88k and report to you in this paper all misstatements above £6,250.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Audit Committee's attention our conclusions on the significant audit risks. In particular the Audit Committee must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report.

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.
Revenue recognition	✓	✓	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)
Revenue recognition

Risk identified and key judgements

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

The components of operating income for the Commission are income from levies and bank interest income. The significant risk is pinpointed to the recognition of levy income. This being completeness and accuracy of income from levies from professional bodies and complaints levy.

Deloitte response

Our work in this area included the following:

• Obtained an understanding of the design and implementation of the key controls in place in relation to recording levy income;
• Sample tested levy income, tracing receipts of the ledger, to confirm completeness;
• Sample tested levy income recorded during the year to confirm accuracy; and
• Cut-off procedures to test the accurate recognition of levy income at the year-end

Deloitte view

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

Significant risks (continued)

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 evaluate 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 judgments 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 instances of management override of controls in the samples selected for testing and our testing in this area is satisfactory.

Significant risks (continued)

Management override of controls (continued)

Key estimates and judgements The key estimates and judgments in the annual report and accounts includes those which we have selected to be significant audit risks around revenue recognition (see page 10). This is inherently the area in which management has 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
Dilapidations Provision	The Commission provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. A dilapidations provision of £103k was made in respect the leased office building.	The dilapidations provision is immaterial and has moved since the prior year due to there being a new valuation performed in the year. We have challenged the assumptions made by management's expert and, following the receipt of an updated management assessment, we have proposed an adjustment to the dilapidations provision of £17,256 dur to the incorrect inclusion of VAT. Management have corrected this adjustment in the updated financial statements. .
Legal Provision	The Commission provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. A legal provision of £33k has been made in respect of claims against the Commission.	The legal provision is immaterial quantitatively; however is qualitatively material therefore we have performed substantive testing of this balance. We have obtained legal confirmations in relation to the cases provided for third party confirmation of the estimated liability. No issues noted.

Other significant findings
Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

Following updates made by management, the Commissioner's accounts have been prepared in accordance with the Government Financial Reporting Manual (FReM).

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:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organization, the basis of assessment relation to the going concern assumption and the assessment of significant judgements and estimates, specifically dilapidations.

We will obtain written representations from the Commission on matters material to the financial statements 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 expected to be 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 more relevant to the assessment that 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.

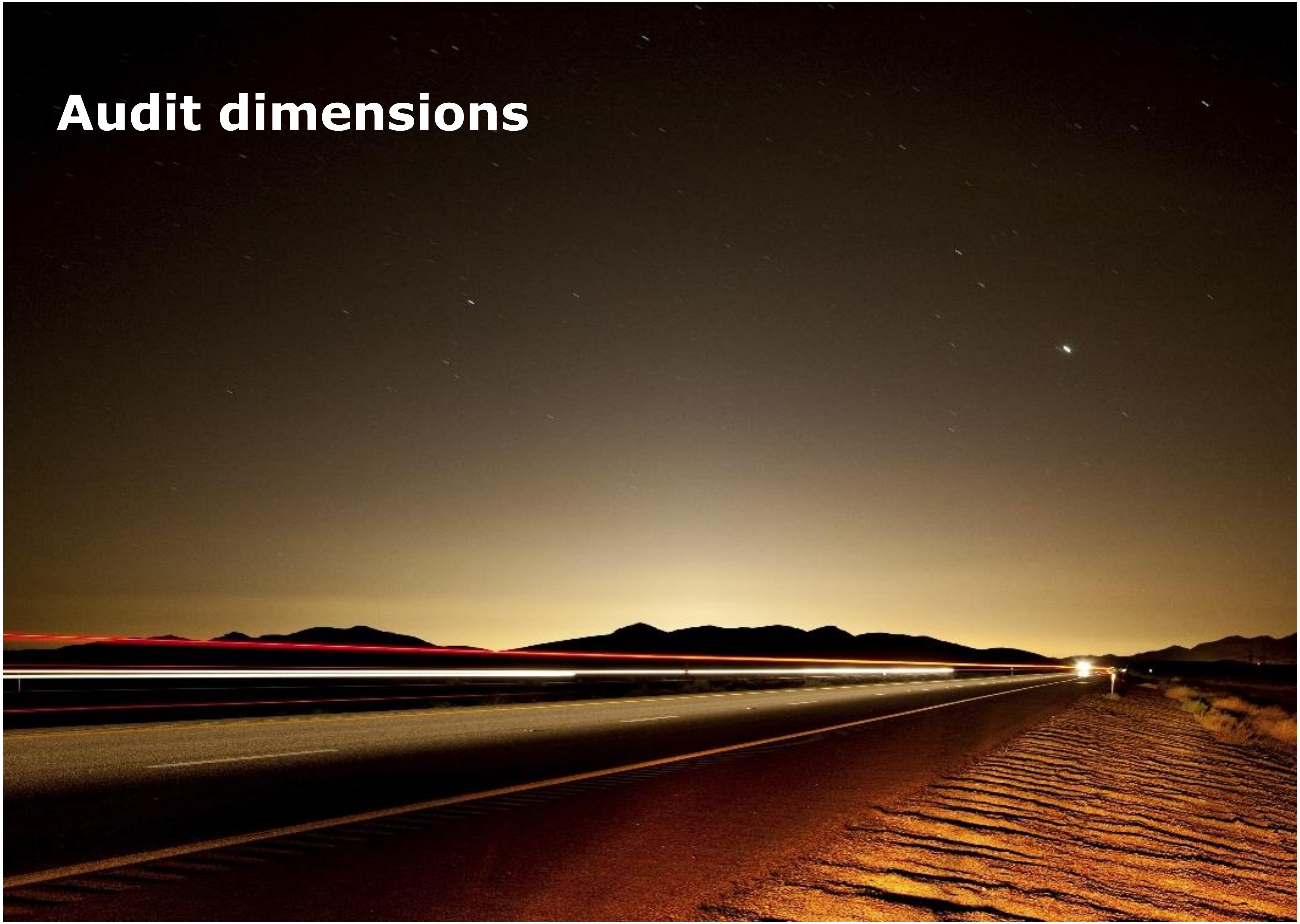
Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 15.

Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines the Commission's performance, both financial and non-financial. It also sets out the key risks and uncertainty as set out in the Annual Operating Plan.	We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions noted. We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provide management with comments and suggested changes and have received an updated version reflecting these changes.
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted. We have also read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provide management with comments and suggested changes and have received an updated version reflecting these changes. We have also audited the auditable parts of the remuneration and staff report and, following updates by management, confirmed that it has been prepared in accordance with the accounts direction.
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	We have confirmed that £3,597k of levy income has been generated for 2021/22 and that a balanced budget is in place. Based on all procedures performed, we agree with management's assessment that it is appropriate for the Commission to prepare the financial statements on a going concern basis.

Audit dimensions



Audit dimensions
Overview

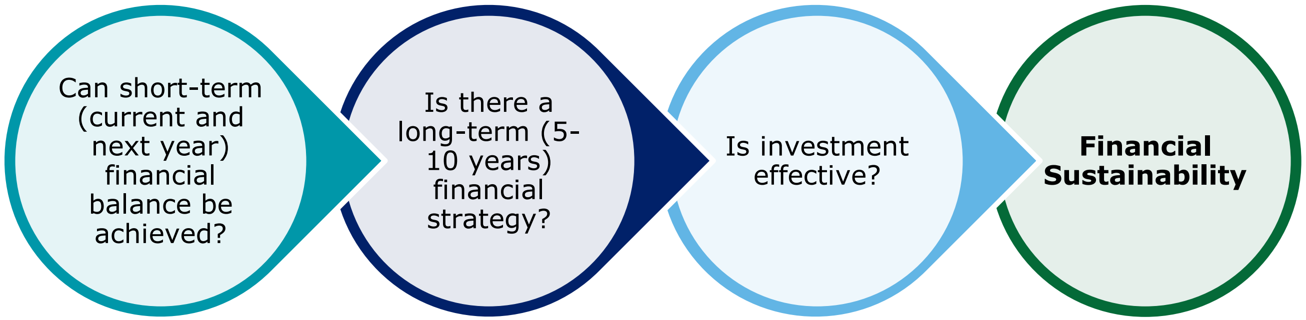
As set out in our Audit Plan, Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following areas. In line with previous years, we have concluded that the full application of the wider scope is not appropriate and applied the “small body” clause set out in the Code which allows narrower scope work to be carried out. We have updated our risk assessment during the audit and confirm that the judgement made in our audit plan has not changed. Our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the governance statement (which is discussed on page 15); and
- The financial sustainability of the Commission and the services that it delivers over the medium to longer term.

In addition to the above, we have reviewed the Commission’s arrangements for the ***prevention and detection of fraud and irregularities***. Overall we found the Commission‘s arrangements to be operating effectively.

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.



Financial sustainability

Areas considered

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

The financial impact of the pandemic includes an agreed delay in receipt of the levy income and increased IT costs to enable remote working.

There is a risk that robust long-term planning arrangements are not in place to ensure that the body can manage its finances sustainably and deliver services effectively, identify issues and challenges early and act on them promptly.

There is also a risk to the ongoing operations of the organisation with the ongoing Scottish Government review into the legal complaints legislation the Commission operates within.

Budget setting

2019/20 conclusion: The Commission has achieved short-term financial balance in 2019/20 and has a balanced budget in place for 2020/21.

2020/21 update: The Commission have prepared their budget for 2021/22. Total expenditure for the year has been forecast to be £3,815k, compared to the 2020/21 budget of £3,993k. This represents a decrease of £179k or -4.5%. The Commission expects to achieve a surplus of £6k compared to the significant surplus of £533k achieved in 2020/21. Reserves are not being utilised to achieve a balanced budget.

The decrease in budget has been driven by a decrease in staff costs of £295k caused by a reduction of FTE headcount of 8.04 as well as further reductions within reporters’ costs and members’ salaries.

This decrease has been offset by a £123k budgeted increase in non-staff costs. These costs are expected to increase due to:

- £55k increase in IT costs due to a transition to Microsoft O365, IT support increasing to 24/7 and other IOT costs associated with remote working.
- £54k related to an investment in reducing office dependency by moving to a hybrid working model.

The budget was tabled and approved for public consultation at the board meeting on 26 January 2021. This meeting was attended by members of the board, the CEO, Director of Business Performance, Director of Resolution, and the Director of Public Policy. This is deemed to be an appropriate level of leadership team involvement in the budget setting process. The budget was laid before Parliament in April 2021.

We have assessed the assumptions used in the 2021/22 budget and overall consider them to be reasonable given the transition to a hybrid work setting as well as the planned reduction in headcount in line with case volumes.

Financial sustainability (continued)

2020/21 update (continued): Efficiency savings have been incorporated into the budgeting process every year since 2015, with 2021/22 being no different. Efficiencies built into the 2021/22 budget include:

- Staff costs saving of £295k as noted on the previous page;
- Savings of members costs of £25k;
- Reduced travel costs of £7k; and
- Communications costs reducing by £15k.

The Commission's new strategy had already set out a plan for a more flexible and digital organisation to cope with increased uncertainty and disruption. This was based on Brexit uncertainty, the possibility of an 'IndyRef2', the risk of recession, the increased risk of environmental events, and the need to reduce environmental impact. This has prepared the Commission well for COVID-19, which has only accelerated the need for changes planned, rather than altering them. This has flowed through into the budgeting process and has been behind the key drivers in the movements since the prior year.

Although the 2021/22 budget document incorporates considerations around a change in demand for the Commission's services, the Commission should further incorporate a change in demand for their services through a medium-term financial plan (discussed further on the next page).

The Commission currently does not use outcome based budgeting.

2020/21 conclusion: As with previous years, Commission are projecting to achieve short term balance in 2021/22.

The budget setting process has captured the key drivers of movement since 2020/21 incorporating macroeconomic factors such as Brexit and the impact of COVID-19.

Specific savings areas have been identified and the Commission have quantified the impact of these in the budget.

Outcome Based Budgeting has been identified as an area of best practice within other Public Sector bodies. We would recommend the Commission progressing towards outcome based budgeting in future.

Financial sustainability (continued)

Medium-to long-term financial planning

2019/20 conclusion: The Commission has improved the medium-term planning in place during 2019/20 completing the four-year financial forecasts. Further should be done regarding specific savings plans to address the funding gap of £507k.

2020/21 update: The Commission revised its MTFP in March 2021, which considers the period to 2023/24. The MTFP focuses heavily on the year underway, with the assumptions for the forecast to 2024 being limited to just half a page. The figures included in the outlook and which underpin the MTFP itself are based on an assumption that the Commission will maintain the same complement of staff as in post at June 2021 over the following three years. This is despite the workforce plan identifying a projected increase of 3 employees over the next 3 years.

There are some “significant unknowns” identified including possible savings from breaking the lease in 2023 and the risk that complaints increase significantly and require more staffing or resource. The potential financial impact of these is not quantified nor is this incorporated into a scenario analysis.

The impact of COVID-19 has not been built into the MTFP, so it is not clear what financial impact it is expected to have on the Commission (if any).

Finally, the MTFP should set out a decision hierarchy, should there be adverse developments, showing where changes would be made first.

2020/21 conclusion: It is positive that the Commission revised its MTFP in the year to take into account the updated context within which it operates.

However, it is unclear how useful the current approach to the MTFP is in providing a platform for the Board to make informed medium-term financial decisions. The MTFP, in its current format, does not set out where the Commission needs to be over the medium-term, where it currently expects to be, or how it plans to bridge any gap that exists between the two.

There are various areas which should be improved in the MTFP, including:

- It covers the period to 2023/24 only, which is at the lower end of what would be expected for a medium-term plan;
- The plan does not contain the potential financial impacts of the “significant unknowns” mentioned in the narrative;
- The plan focuses very heavily on historical performance and references to future performance are limited; and
- Links with the Budget and Workforce Plan are unclear.

Financial sustainability (continued)

Workforce Planning

2019/20 conclusion: Not specifically reported on within our 2019/20 report.

2020/21 update: The Commission should be commended for their transition to remote working during the COVID-19 pandemic. They have managed to transition to a work from home business model in a very short length of time as the pandemic forced people to stay at home.

Throughout this time, the Commission has continued to score highly on most staff survey metrics throughout the year. 76% of Commission employees agreed with the statement that the *"Commission has supported me as an individual during the Coronavirus and lockdown".* 71% of employees indicated that they could obtain a better work life balance through remote working.

This is a notable achievement given the additional challenges associated with working from home, especially around keeping staff motivated and informed.

	2020/21	**2019/20**
Staff Absence	331 days	361 days
Staff turnover	10.48%	19.83%
Staff absence per person	5.9 days	13.6 days

The weakest area noted within the 2020 Staff Survey was in the category *"I am spending enough quality time interacting with other colleagues and still feel part of the team"* where 33% did not agree with the statement. This can be attributed to the impact of working from home.

The Commission has made a considerable investment in computer technology to facilitate remote and hybrid working. Per the 2021/22 budget and the workforce plan (discussed further below) the Commission has budgeted for a "Hybrid Working Post" to support the transition to a new way of working.

Through the review of the Q4 HR report we have noted that days lost have decreased by 8% from 361 to 331. Anxiety and depression accounted for 28% of days lost with musculoskeletal conditions representing 24% of absences. It is encouraging that the Commission have promoted home working health and safety through training around effective home working and mental health support. They should continue to encourage safe and effective work from home practices and further support their employee's mental health.

Financial sustainability (continued)

2020/21 update (continued): We are happy to see that the Commission has a developed workforce plan. The plan sets out the expected full time equivalent (FTE) requirements, by job role, over the next 3 years. The skills and competencies of key management roles have been set out in the workforce plan. This will allow the Commission to effectively recruit for these should the need arise. However, despite this, the workforce plan does not contain detailed succession planning. This should be incorporated into the workforce plan going forward.

The Commission could also expand their workforce plan to exploring the demographics of the workforce, the creation of career pathways and the use of employability schemes such as apprenticeships. This will allow the Commission to have a more diverse and motivated future workforce.

Finally, the workforce plan sets out the training and continual professional developments (CPD) requirements over the next year. It is encouraging that the Commission have specifically included a wellbeing element in the 2021/22 learning programme.

2020/21 conclusion: We are satisfied that the Commission has monitored and supported staff throughout the COVID-19 pandemic and has taken a proactive role in their wellbeing. They should continue to support their employees who work from home, especially around areas of computer equipment and mental health.

We are satisfied that the Commission have considered the future workforce needs through the formalised workforce plan. This sets out the current and future requirements and the changes to the workforce required.

The workforce plan can be further expanded to discuss succession planning and to explore potential internal and external career pathways.

Financial sustainability (continued)

Deloitte view – Financial sustainability

As with previous years, the Commission are projecting to achieve short term balance in 2021/22. The budget setting process has captured the key drivers of movement since 2020/21 incorporating macroeconomic factors such as Brexit and the impact of COVID-19.

Outcome Based Budgeting has been identified as an area of best practice within other Public Sector bodies. We would recommend the Commission progressing towards outcome based budgeting in future

It is positive that the Commission revised its MTFP in the year to take into account the updated context within which it operates. However, MTFP could be improved through covering a period beyond 2023/24, quantifying the potential financial impacts of various scenarios and through linking in with the workforce plan.

We are satisfied that the Commission has monitored and supported staff throughout the COVID-19 pandemic and has taken a proactive role in their wellbeing. We are also satisfied that the Commission have considered the future workforce needs through the formalised workforce plan. This sets out the current and future requirements and the changes to the workforce required. The workforce plan can be further expanded to discuss succession planning and to explore potential internal and external career pathways.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (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
- Other insights we have identified from our audit.

What we don't report

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

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

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

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.

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

Use of this report

This report has been prepared for the Commission, 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.

Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 23 September 2021

Sector developments

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

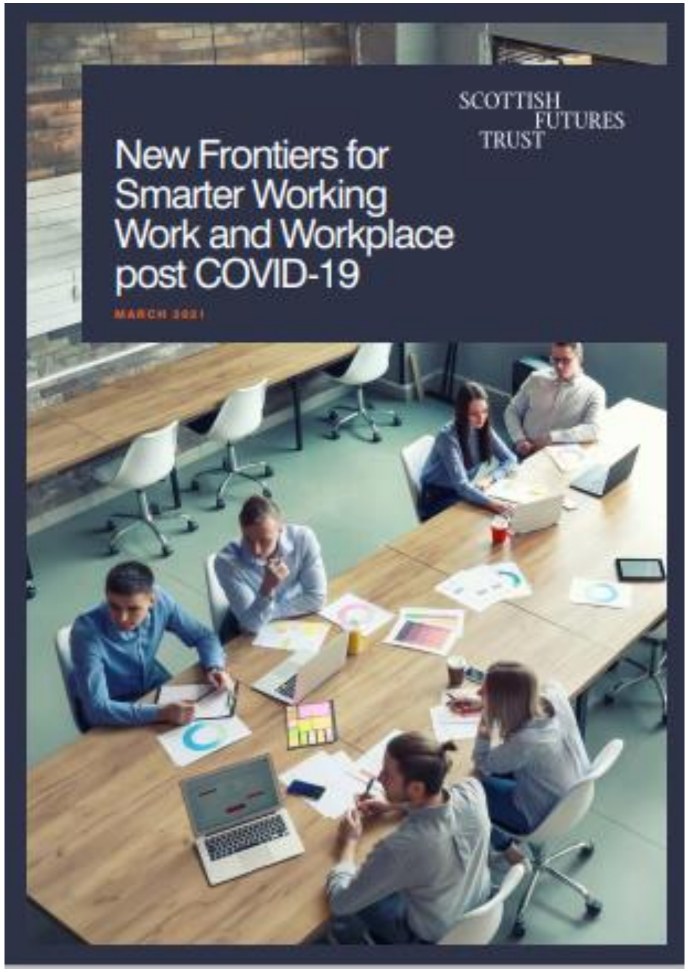
Background and overview

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 (SFT) 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 [Scottish Futures Trust](#).

Appendices

Audit adjustments (continued)

Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/ (credit) Statement of Comprehensive Net Expenditure £	Debit/ (credit) in net assets £	Debit/ (credit) prior year taxpayers equity £	Debit/ (credit) taxpayers equity £	If applicable, control deficiency identified
Incorrect presentation of recovery of debts already provided for: Operating income Other Administration Costs	[1]	10,000 (10,000)				n/a
VAT within dilapidations	[2]	(17,256)	17,256			
Total		**(17,256)**	**17,256**	**-**	-	-

[1] The Commission recovered debts which were already provided for in the 2019/20 accounts. While the correct balance sheet entry was made, the SoCNE journal was made to income rather than to expenses.

[2] The Commission included VAT within its initial dilapidation assessment, which is not permissible under HMRC guidance.

Audit adjustments (continued)

Disclosures

Disclosure misstatements

The following disclosure misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Remuneration Report – The draft financial statements did not fully incorporate the requirements in relation to staff policies for disabled persons	FReM 6.5.16	Qualitatively material

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	*Financial Planning*	The Commission should improve its MTFP through covering a period beyond 2023/24, quantifying the potential financial impacts of various scenarios and through linking in with the workforce plan.	As part of the Op Plan for 21/22 we have in a number of projects that will impact the SLCC's Budget and will need to work on various scenarios to show the impact of these projects on future years levies.	Director of Business Performance	31/3/2022	Medium
2	*Workforce Planning*	The Commission should further develop its Workforce Plan to discuss succession planning and to explore potential internal and external career pathways.	We are due to present a final version of our succession plan framework for approval at Remuneration Committee in October 21 and this will then allow us to revise our workforce plan accordingly.	Director of Business Performance	31/3/2022	Medium

Action plan (continued)

Follow-up 2019/20 action plan

We have followed up the recommendations made in our 2019/20 annual report and are pleased to note that both recommendations made have been fully implemented. We will continue to monitor those partially implemented as part of our audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2020/21 Update
Dilapidations Provision	Whilst we did not identify any errors in the current year relating to the dilapidations provision, we recommend that a dilapidations survey is undertaken by a qualified specialist. This should update the current valuation - this would be particularly useful given the recent office refurbishment works and the upcoming lease break in 2023.	We accept this recommendation and intend to complete this during 2020-21.	Director of Business Performance	31 March 2021	Medium	As noted on page 12, the dilapidations provision was reviewed and updated during the year.
Medium-term financial planning	Management have completed financial forecasting for the period 2020-25 and identified the funding gap in place. We recommend that they consider the next steps on how the Commission can respond to close the funding gap (£507k) identified over that period.	We are continuing the work in this area with regular reporting to the Audit Committee and Board on progress.	Director of Business Performance	31 March 2021	Medium	As noted on page 20, a revised MTFP was updated in March 2021. We have made an additional recommendation on page 30 as part of the current year action plan.

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

Required representations:

We have asked the Commission to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and 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 the Commission to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified the risk of fraud in relation to revenue recognition 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 the Commission and and our objectivity is not compromised.
Fees	The audit fee for 2020/21, in line with the expected fee range provided by Audit Scotland, is £12,890, as analysed below:

	£
Auditor remuneration	10,610
Audit Scotland fixed charges:	
Pooled costs	2,320
Audit support costs	510
Total fee	**12,980**

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.