



Scottish Fiscal Commission

Final report to the Audit & Risk Committee and the Auditor General for Scotland on the on the 2022/23 audit

Issued on 9 October for the meeting on the 11 October 2023

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1.1 Partner introduction

The key messages in this report

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

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

I have pleasure in presenting our final report to the Audit and Risk Committee (“the Committee”) of Scottish Fiscal Commission (“SFC”) for the 2022/23 audit. The report summarises our findings and conclusions in relation to the audit of the Annual Report and Accounts and the wider scope requirements, the scope of which was set out within our planning report presented to the Committee in May 2023.

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 report.

The Performance Report and Accountability Report comply with the statutory guidance and proper practice and are consistent with the Annual Report and Accounts and our knowledge of the SFC. We provided management with comments and suggested changes based on review of the first draft and an update has been received confirming compliance.

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

No material errors have been identified to date and there are two immaterial uncorrected misstatements. One corrected misstatements in excess of our reporting threshold of £2,000 has been identified up to the date of this report which is included within the Appendix to this report.

1.2 Partner introduction (continued)

The key messages in this report (continued)

Status of the Annual Report and Accounts audit

Outstanding matters to conclude the audit include:

- Receipt of final Annual Report and Accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2023.

Conclusions from wider scope audit work

Financial management – effective budget setting and monitoring arrangements are in place.

Financial sustainability – Financial balance has been achieved in 2022/23 and a balanced budget approved for 2023/24, therefore the Commission is financially sustainability in the short term. While the indicative funding for 2024/25 and 2025/26 are expected to cover the projected costs, there is no formal medium term financial strategy in place. We have therefore recommended that this is developed in recognition of the wider pressures across the public sector.

Vision, leadership and governance – The Corporate Plan clearly sets out the vision and strategic objectives of the Commission. The Senior Management Team has remained relatively stable in the year. The transition to the new Chair of the Commission and two new external members of the ARC has been well managed, with a positive culture and fresh perspective. The governance arrangements continue to operate effectively and the Commission continues to be open and transparent.

Use of resources to improve outcomes – A clear performance management framework is in place and the Commission continue to meet its objectives. The planned external statutory review of its performance, planned for 2024/25 will consider the impact of the Commission’s work. We will continue to monitor this during our audit appointment.

Best Value – The Commission has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development.

1.3 Partner introduction (continued)

The key messages in this report (continued)

Conclusions from wider scope audit work (continued)

Climate change – Recognising the nature of the Commission as a public sector body with one office site, the opportunities for emissions reductions are limited. The Annual Report and Accounts has a clear commitment on the work that the Commission is planning to do as part of its wider role with the Scottish Budget.

Cyber risk – The Commission recognise cyber risk as part of its wider strategic risk around Corporate Systems which is monitored by the Senior Management Team, ARC and Board.

Next steps

An agreed Action Plan is included on pages [34](#) to [38](#) of this report.

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.

Pat Kenny
Associate audit partner







Annual Report and Accounts Audit



2.1 Quality indicators

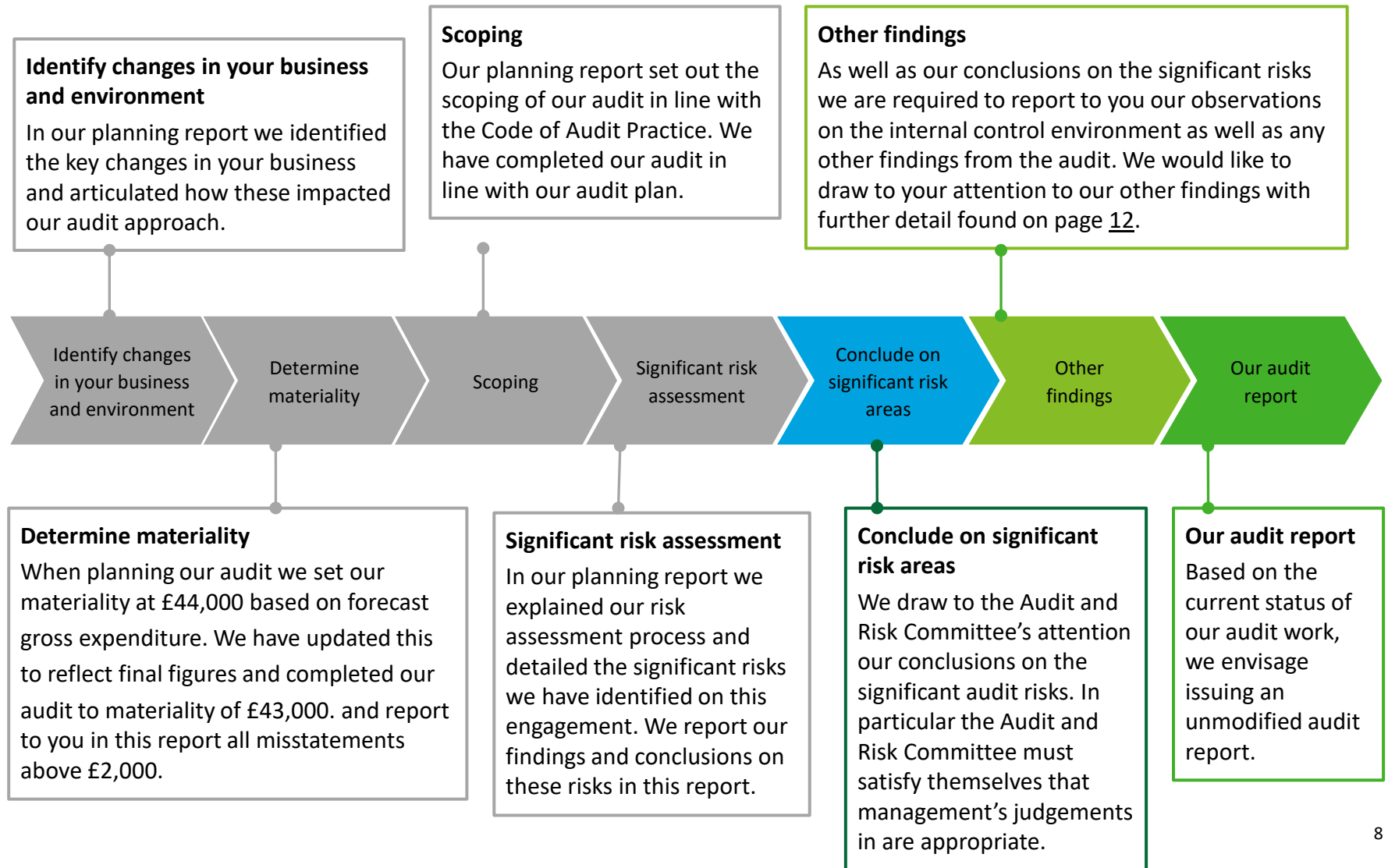
Impact on the execution of our audit

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	Further detail
Timing of key accounting judgements	N/A	SFC do not have any judgements or estimates	N/A
Adherence to deliverables timetable		There were some delays in receiving information, this was mostly from evidence that was needed from the shared services provided by the Scottish Government.	N/A
Access to finance team		The audit team always had access to the finance team and relevant key personnel from beginning through to the end of the audit process.	N/A
Quality and accuracy of management accounting papers		Evidence provided by management was generally found to be complete, accurate and sufficient for the purposes of our audit.	N/A
Quality of draft Annual Report and Accounts		The completed draft of the Annual Report and Accounts were provided for audit on a timely basis. There were some changes required in order to ensure compliance with the financial reporting framework.	N/A
Response to control deficiencies identified		Some deficiencies were noted and we are satisfied with responses by management.	Page 34
Volume and magnitude of identified errors		Three misstatements identified, however the total is less than our materiality and neither are individually material and no other errors other than these were identified.	N/A




2.2 Our audit explained

We tailor our audit to your business and your strategy






2.3.1 Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations
Management override of controls			Satisfactory	
Operating within the expenditure resource limit			Satisfactory	

Level of management judgement

-  Limited management judgement
-  A degree of management judgement
-  Significant management judgement

Controls approach adopted

-  Assess design & implementation

2.3.2 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.

SFC did not have any accounting estimates or judgements.

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 from our testing to date.

2.3.3 Significant risks (continued)

Operating within the 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 SFC 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 considered the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Parliament. There is a risk is that the SFC could materially misstate expenditure in relation to year-end transactions, in an attempt to achieve a breakeven position on its budget.

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 limits 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;
- Confirming the resource limits allocated to SFC by reference to the Budget (Scotland) Act 2022;
- 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 found an immaterial error which can be seen at page [37](#). These related to payroll accruals being over accrued at year end, causing the accruals balance to be overstated

Based on our testing to date, we confirm that the SFC has performed within the limits set by Scottish Parliament achieving a small underspend of £105,000.

2.4 Other significant findings

Financial reporting findings

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

Qualitative aspects of your accounting practices:

SFC's Annual Report and Accounts have been prepared in accordance with the Government Financial Reporting Manual (the "FReM"). Following our audit work, we are satisfied that the accounting policies are appropriate.

Significant matters discussed with management:

We had difficulty obtaining some audit evidence that was from the Scottish Government's shared services.

Regulatory change

IFRS 16, Leases, came into effect on 1 April 2022, therefore 2022/23 is the first year of implementation. This required adjustments to recognise on balance sheet arrangements previously treated as operating leases.

SFC have one lease falling under the scope of IFRS 16. We have tested the completeness and accuracy of the lease identified on transition with no issues noted. Recommendations were raised to bring the associated disclosures in line with reporting requirements which were accepted by management and are reflected in the final version of the Annual Report and Accounts. We found no issues in our testing of IFRS 16 Leases.

Liaison with internal audit

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings. In response to the significant risks identified as part of our audit, no reliance was placed on the work of internal audit and we performed all work ourselves.

We will obtain written representations from the Accountable Officer 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.

2.5 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.

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Our opinion on the Annual Report and Accounts

Our opinion on the financial statements is expected to be unmodified.



Going concern

We have not identified a material uncertainty related to going concern and will report that we concur with management's 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 Annual Report and Accounts 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 Annual Report and Accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page [13](#).

2.6 Your Annual Report and Accounts

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

	Requirement	Deloitte response
The Performance Report	The report outlines the SFC's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the SFC.	<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>We provided management with comments and suggested slight changes which management have updated in the revised draft.</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 Annual Governance Statement is consistent with the Annual Report and Accounts and has been prepared in accordance with the accounts direction. No exceptions 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 comments and suggested changes which management have updated in the revised draft.</p> <p>We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the accounts direction.</p>

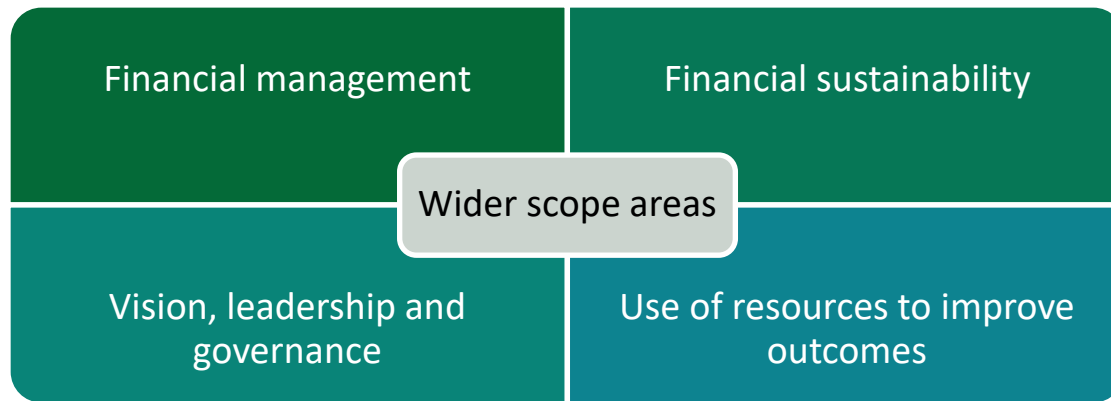
Wider scope audit



3.1 Wider scope requirements

Overview

As set out in our audit plan, Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



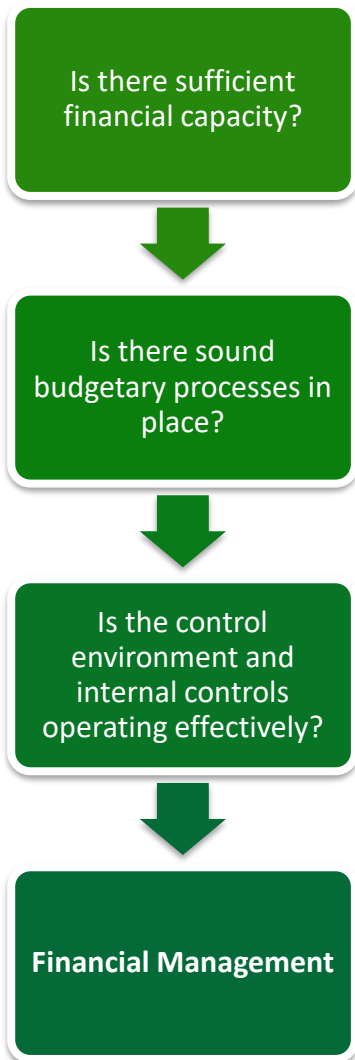
In its planning guidance, Audit Scotland has also highlighted the following national or sectoral risks that the Auditor General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audits:

- Climate change.
- Cyber security.

Our audit work has considered how the Commission is addressing these and our conclusions are set out within this report, with the report structured in accordance with the four dimensions. Our responsibilities in relation to Best Value ('BV') have all been incorporated into this audit work.

3.2 Wider scope requirements (continued)

Financial management



Significant risks identified in Audit Plan

We did not identify any significant risks in relation to financial management during our planning work. We therefore restricted our audit work to reviewing the budget monitoring to the Governance Board during the year to assess whether financial management and budget setting has continued to be effective

Current year financial performance

As a Non-Ministerial Office (NMO) of the Scottish Administration, working alongside but separate from the Scottish Government and accountable directly to the Scottish Parliament, the Commission's core budget allocation appears as distinct lines items in the Annual Scottish Budget Bill. The Chief Executive, as Accountable Officer, has direct accountability to the Scottish Parliament in relation to the financial management of the Commission. However, given the Commissioners have collective responsibility for fulfilling the functions and duties set out in the Scottish Fiscal Commission Act 2016, the Governance Board needs to assure itself that procedures are in place to ensure the propriety and probity of public expenditure.

After receiving the allocation, the Commission has flexibility to determine how that money is spent. Regular reports have been provided the Governance Board and the Audit and Risk Committee (ARC) on to the budget position.

The Commission has reported an underspend of £105,000 (4.6%) against its budget allocation. This was a slight increase to that reported to the ARC in February 2023 where an underspend of £70,000 was projected. The key reasons for the variance is due to reduced non-staff costs, unused contingency and the impact of the pay settlement being less than initially estimated. This position has been regularly reported to the ARC and Scottish Government.

3.3 Wider scope requirements (continued)

Financial management (continued)

Finance capacity

The finance team is led by the Head of Strategy, Governance and Corporate Services. As discussed on page [21](#), the Commission has a shared service arrangement with Scottish Government which includes the financial ledger system and access to Scottish Government finance staff. There is currently no qualified accountant within the Commission's Governance and Corporate Services team. This is not unusual given the size of the organisation. We have not identified any risks with the teams capacity that has impact on the operational financial management of the Commission.

The implementation of the new Scottish Government ledger system from 1 April 2024 will result in changes to the work of the team. We are pleased to note that the Commission is considering bringing in an additional temporary, part time resource to support the transition. We will continue to monitor this during our audit appointment.

Internal controls and internal audit

The Commission relies upon the financial systems provided by the Scottish Government, in particular the general ledger, purchase ledger and payment of invoices. A detailed Framework Agreement is in place, which was signed in June 2019. This agreement also includes the provision of internal audit services.

We have assessed the internal audit function, including its nature, organisational status and activities performed. The agreed 2022-23 internal audit plan set out plans to carry out an Annual Corporate Assurance Review which included risk management – assurance mapping, corporate governance and shared services.

A “substantial assurance” grading was provided for this work, indicating controls are robust and well managed. We have reviewed the internal audit reports published throughout 2022/23. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

Standards of conduct for prevention and detection of fraud and error

We have assessed the Commission's arrangements for the prevention and detection of fraud and irregularities. This has included specific considerations in response to the Audit Scotland's publication “Fraud and irregularities 2021/22 – sharing risks and case studies to support the Scottish public sector in the prevention of fraud”. Overall, we found the arrangements to be to be designed and implemented appropriately.

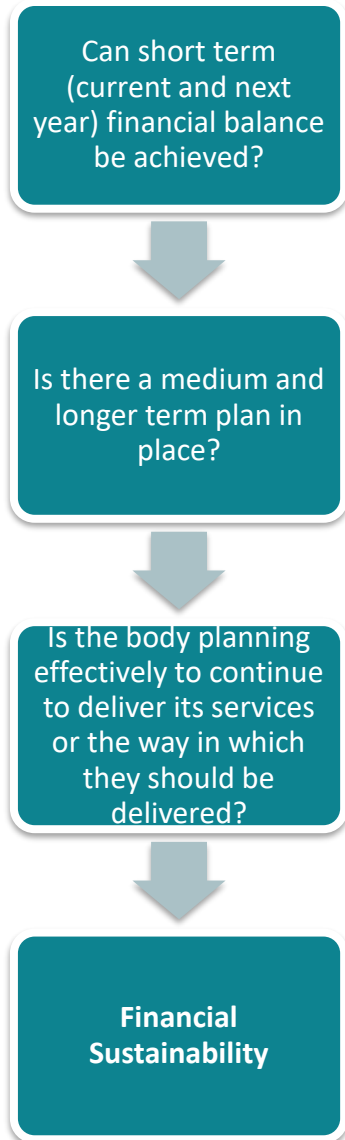
Deloitte view – financial management

The Commission continues to have effective financial management arrangements in place. While an underspend was reported in the year, this was closely monitored throughout the year.

The finance team is led by the Head of Strategy, Governance and Corporate Services, with support from Scottish Government finance. The upcoming changes to the financial system presents a risk, which is being closely managed by management. There is also a robust internal audit function in place and clear arrangements for the prevention and detection of fraud and error.

3.4 Wider scope requirements (continued)

Financial sustainability



Significant risks identified in Audit Plan

In our Audit Plan we highlighted that while the Commission has received indicative funding levels from the Scottish Government for a three year period, in the absence of a fully developed medium term plan, there is a significant risk that the Commission is unable to demonstrate that the funding is sufficient to cover costs in the medium to longer term.

2023/24 budget setting

As explained on page [17](#) the Commission's core budget allocation appears as distinct lines items in the Annual Scottish Budget Bill. The confirmed budget allocation for 2023/24 is £2.485 million. The breakdown of this budget ask was presented to the Governance Board in November 2022 in advance of submitting the funding request to the Scottish Government. This provided detail of the proposed budget ask and assumptions applied.

Medium-to-long term financial planning

At the same time as receiving the budget allocation for 2023/24, the Scottish Government also provided indicative figures for the following two years. This is particularly unique to the Scottish Fiscal Commission to protect their independence and role played in the wider Scottish Government budget.

In preparing its budget request for 2024-25 and the subsequent two years, the Commission models different scenarios to ensure that its decisions about how to allocate its budget are sustainable over the next 4 years.

3.5 Wider scope requirements (continued)

Financial sustainability (continued)

Medium-to-long term financial planning (continued)

While historically the Commission has received the funding that it has requested from the Scottish Government, there remains a risk over the medium term as the pressures across the whole of the public sector are increasing that this may not continue. It is therefore important that this is closely monitored.

Strategic planning, financial planning and workforce planning are intrinsically linked and critical to the future success of any organisation. The Commission has not prepared a formal medium term financial plan. Given that over 85% of costs are staff costs, which are driven by national pay awards, and there are no planned changes to the scope of the Commissions work, there is little complexity in future projections. The indicative funding advised by the Scottish Government is expected to meet the planned costs over the medium term. We would, however, still recommend that the Commission develop a medium term financial strategy in recognition of the wider funding pressures across the public sector and the potential impact this could have for the Commission.

Audit Scotland's report, published in June 2014 [Scotland's public finances – A follow-up audit: Progress in meeting the challenges \(audit-scotland.gov.uk\)](http://audit-scotland.gov.uk) includes a helpful summary of important features of a financial strategy, as summarised opposite. We would recommend that management make reference to this publication as a guide to best practice.

Area	Important features of a financial strategy
Period	A financial strategy should cover 5-10 years.
Cost	A clear understanding of the business model and the cost of individual activities within it
Savings options	Evidence based options for achieving savings
Savings details	Details of one-off and recurring savings
Scenario planning	Scenario planning to outline best, worst and most likely scenarios of the financial position and the assumptions used
Assets/Liabilities and Reserves	Details of assets, liabilities and reserves and how these will change over time
Capital Investment Activity	Details of investment needs and plans and how these will be paid for
Demand	An analysis of levels of service demand and project income
Funding shortfalls	Any income or funding shortfalls and how to deal with these
Strategy links	Clear links to the corporate strategy and other relevant strategies such as workforce and asset management
Risks and timescales	The risks and timescales involved in achieving financial sustainability

3.6 Wider scope requirements (continued)

Financial sustainability (continued)

Medium-to-long term financial planning (continued)

As part of the Spending Review published in May 2022, the Scottish Government expects bodies to set an annual efficiency target of 3% and also expects them to explore the scope to maximise the use of shared services across the public sector landscape. We have considered each of these elements as applicable to the Commission as follows.

Savings targets

While the budget requests to the Scottish Government incorporate potential savings, the budget monitoring reports to the ARC currently do not set out how those will be achieved. This is an area that the Commission could incorporate into future budget setting papers to demonstrate how it is contributing to the efficiency target. While the 3% target has been removed in the latest Scottish Government Medium Term Financial Strategy published in May 2023, it is still important for the Commission to demonstrate how efficiencies are being achieved.

Use of shared services

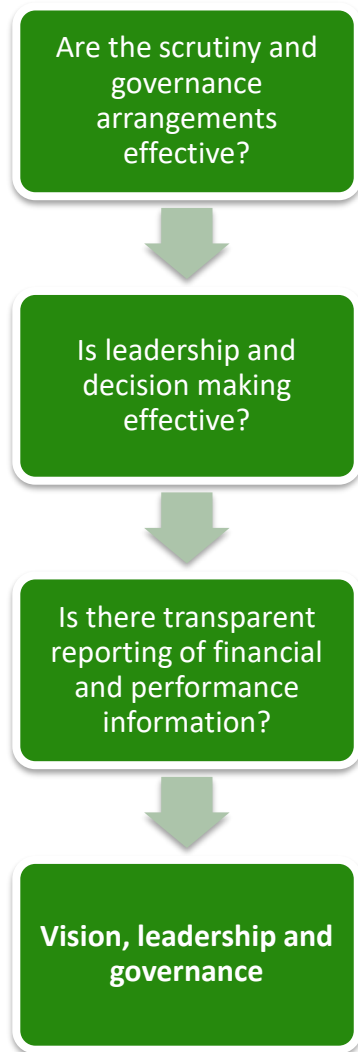
The Commission currently has a shared service agreements in place with the Scottish Government for a number of services including the financial system, HR and IT.

Deloitte view – Financial sustainability

The Commission has achieved financial balance in 2022/23 and has confirmed funding for 2023/24 with an approved balanced budget, therefore is financially sustainable in the short term. While the indicative funding for 2024/25 and 2025/26 are expected to cover the projected costs, there is no formal medium term financial strategy in place. We have therefore recommended that this is developed, with reference being made to Audit Scotland's publication which sets out the important features of a financial strategy.

3.7 Wider scope requirements (continued)

Vision, leadership and governance



Significant risks identified in Audit Plan

We did not identify any significant risks in relation to vision, leadership and governance during our planning work. We have therefore restricted our audit to reviewing the work of the Governance Board and the ARC to assess whether the arrangements continue to work effectively.

Vision and strategy

The current Corporate Plan covers the period 2022-25. This clearly sets out the vision and strategic objectives of the organisation.

“The Scottish Budget is transparent and well-scrutinised, and Government and Parliament understand the uncertainties and risks relating to devolved public finances.”

The plans sets out the following four strategic objectives:

1. Provide robust, independent, official forecasts of Scotland’s economy, devolved tax revenues and social security spending.
2. Explain what our forecasts and analysis mean for the Scottish Budget.
3. Analyse and explain the medium and longer term risks to the Scottish Budget.
4. Be an effective and efficient organisation with skilled, knowledgeable people.

The Corporate Plan is supported by an annual Business Plan which sets out the priorities for the year ahead.

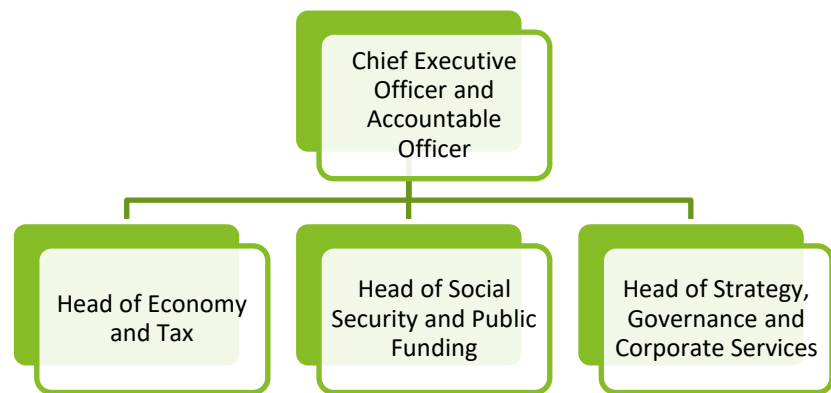
The Corporate Plans also sets out how the Commission with report on its performance. This includes reporting in its annual report and accounts and its annual forecast evaluation reports. We have considered this further on page [25](#). In addition, every five years, the organisation commission an external statutory, independent review of its performance, with the next review due in 2024/25.

3.8 Wider scope requirements (continued)

Vision, leadership and governance

Leadership

The Senior Management Team has remained relatively consistent during the year, with the structure as summarised below. The Head of Social Security and Public Finance is currently being filled on an interim basis as a result of maternity cover.



A key risk that is closely monitored by the Senior Management Team, ARC and Governance Board is around staff and in particular the risks of managing, motivating, recruiting and retaining people with the skills needed, appropriate leadership and management, and adopting hybrid working practices. This risk has decreased during 2022/23 as new staff have become more experienced which increases resilience and capacity. The level of staff turnover has reduced and the Commission continue to attract suitable candidates.

The Commission consisted of Commissioners who are collectively responsible for fulfilling the functions and duties set out in the Scottish Fiscal Commission Act 2016. The Commissioners are appointed by Scottish Ministers with the approval of the Scottish Parliament. There are currently 4 Commissioners and there were changes in the year with a newly appointed commissioner and Chair appointed from 1 July 2022. There was an overlap period of 1 month with the previous Chair to ensure a smooth transition.

Governance and scrutiny arrangements

The Scottish Government Framework Agreement was signed in June 2019. This sets out the broad framework within which the Commission operates and defines key roles and responsibilities which underpin the relationship between the Commission and the Scottish Ministers.

The Commission's standing orders were updated in February 2023 following a review by the Board. A clear governance structure is in place, with the Governance Board being supported by the Audit and Risk Committee (ARC), and both the Board and ARC supported by the Senior Management Team.

As noted on page [18](#), Internal Audit carried out its Annual Corporate Assurance Review and concluded that "risk, governance and control procedures are effective in supporting the delivery of any related objectives. Any exposure to potential weakness is low and the materiality of any consequent risk is negligible".

3.9 Wider scope requirements (continued)

Vision, leadership and governance

Governance and scrutiny arrangements (continued)

The ARC provide oversight and scrutiny of the risk management activity. The Risk Card was discussed at each ARC meeting during the year, with detailed discussion on each risk, including mitigating action.

In line with best practice, the ARC carries out an annual self-assessment of its effectiveness, using the Scottish Government handbook. The most recent assessment was considered by the ARC in May 2023, with no issues arising.

As the Governance Board is limited to between three and five Commissioners by statute, the choice of members for the ARC is limited. Two new external members of the ARC were appointed in May 2023. This is in line with best practice and helps provide fresh perspective and holds the Board to account.

We have reviewed meetings attendance from the past year and confirm that there has been well attended. In addition, from review of the minutes and observation at meetings, we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings.

Transparency of reporting

All Governance Board and ARC minutes are publicly available through the Commission website. In line with a number of other public sector bodies, consideration should be given to publishing the Board papers to accompany the minutes to enhance the openness and transparency.

The Commission website includes a comprehensive suite of information including links to strategies and plans, thereby demonstrating openness and transparency of decision making and performance information (which is considered further on page [25](#)).

Deloitte view – Vision, leadership and governance

The Corporate Plan clearly sets out the vision and strategic objectives of the Commission. The Senior Management Team has remained relatively stable in the year. The transition to the new Chair of the Commission and two new external members of the ARC has been well managed, with a positive culture and fresh perspective. The governance arrangements continue to operate effectively and the Commission continues to be open and transparent.

3.10 Wider scope requirements (continued)

Use of resources to improve outcomes



Significant risks identified in Audit Plan

In our Audit Plan we highlighted that in line with the Commission’s Corporate Plan and Business Plan, staffing is consistently considered the highest risk and that it can only achieve its objectives through expertise, diligence and commitment of staff. Given the Commission’s strategic importance to the Scottish Government, there is a risk that given staffing pressures, the Commission is unable to direct resources to improve outcomes.

Performance management framework

As noted on page [22](#), the Corporate Plans also sets out how the Commission will report on its performance, which includes reporting on its performance in the Annual Report and Accounts. Much of the Commission’s performance is judged on the quality of its outputs and its strive for accurate forecasts. As a result, its performance can rarely be measured by figures alone and therefore context is explained.

Based on the reporting in the Annual Report and Accounts, it is clear that the Commission continues to meet its objectives. As discussed on page [23](#), while staffing continues to be monitored as part of the risk management arrangements, the risk has decreased during 2022/23 as new staff have become more experienced which increases resilience and capacity. The level of staff turnover has reduced and the Commission continues to attract suitable candidates.

As highlighted in his blog “Christie 10-years on” [Blog: Christie 10-years on | Audit Scotland \(audit-scotland.gov.uk\)](#), the Auditor General for Scotland noted that Christie challenged us to make a shift towards prevention and deliver improved long term outcomes for individuals and communities. But we still measure the success of public services by short term, service specific measures. Public bodies need to rethink radically how we measure success and hold organisations to account for their performance.

3.11 Wider scope requirements (continued)

Use of resources to improve outcomes

Performance management framework (continued)

Due to the nature of the work of the Commission and its need to be independent, there is limited opportunities to report on how it contributes to the wider national outcomes within the Scottish Government National Performance Framework. The external, statutory review, of its performance planned for 2024/25 will however consider the impact of the Commission's work.

Deloitte view –Use of resources to improve outcomes

The Commission has a clear performance management framework. Detailed performance reporting against its objectives is included in the Annual Report and Accounts, which reports that the Commission continue to meet its objectives.

Due to the nature of the work that the Commission does, and need to be independent from the Scottish Government there is limited opportunities to report on how it contributes to the wider national outcomes within the Scottish Government National Performance Framework. While we understand the importance of independence from the Scottish Government, we remain of the view that, as a publicly funded body, the Commission should prioritise the development of an outcomes delivery framework including KPI's which can track improvement over time. It is accepted that the planned external statutory review of impact will be one of the enablers for this. We will continue to monitor this during our audit appointment.

3.12 Wider scope requirements (continued)

Best value

Requirements

The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value (BV).

Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. As part of our wider scope audit work, we have considered whether there are organisational arrangements in place in this regard.

The duty of BV in Public Services is as follows:

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance;
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements, and to contribute to the achievement of sustainable development.
- BV characteristics have been recently regrouped to reflect the key themes which will support the development of an effective organisational context from which public services can deliver key outcomes and ultimately achieve best value:
 - Vision and Leadership
 - Governance and Accountability
 - Use of resources
 - Partnership and collaborative working
 - Working with Communities
 - Sustainability
 - Fairness and equality

Conclusions

The Scottish Fiscal Commission has a number of arrangements in place to secure best value. As noted elsewhere within this report, the Corporate Plan provides a clear vision has specific focus on some of the BV characteristics including accountability, partnership and collaboration and sustainability. The Senior Management Team has remained stable, however, The non-executive leadership has seen a period of change during 2022/23, with the transition managed well and a positive culture and fresh perspective.

Deloitte view – Best Value

The Scottish Fiscal Commission has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development.

3.13 Wider scope requirements (continued)

Climate change

Risks identified in Audit Plan

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impact of climate change.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For the 2022/23 audit, we have provided responses to a series of questions supplied by Audit Scotland to gather basic information on the arrangements for responding to climate change in each body. These are summarised below.

Question	Scottish Fiscal Commission position
1. What targets has the body set for reducing emission in its own organisation or in Its local area?	No specific targets have been set for the Scottish Fiscal Commission to reduce emissions other than the overall targets set out within the Climate Change (Scotland) Act 2009.
2. Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?	<p>The Commission does not have a climate change strategy or action plan setting out how it intends to achieve its targets, in line with the Scottish Government targets.</p> <p>Climate change is, however, referenced within the Annual Report and Accounts as part of the Commission’s wider role in the Scottish Budget. Over the course of 2023/24, the Commission intends to focus on at least one additional aspect of fiscal sustainability, the first being climate change. This recognises that the Scottish Government faces three sets of costs associated with climate change:</p> <ul style="list-style-type: none">• Those from mitigating emissions in line with its legislative targets;• The costs of adapting infrastructure to combat changes in environmental conditions; and• The disruption costs such as increased flooding that result from these changes. <p>The Commission aim to produce an initial qualitative assessment of the impact of the Scottish Government’s fiscal sustainability as well as an audit of the information that would be needed to produce a full assessment.</p>

3.14 Wider scope requirements (continued)

Climate change

Question	Scottish Fiscal Commission position
3. How does the body monitor and report progress towards meeting its emissions targets internally and publicly?	The Commission is not a public body listed in Schedule 1 of the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015, as amended by the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Amendment Order 2020, and therefore does not require to report annual on compliance with the climate change duties.
4. Has the body considered the impact of climate change on its financial statements?	No specific consideration has been given to the impact of climate change on the financial statements. Given the type of public sector organisation, based in one main office site, the expected impact on the financial statements is minimal.
5. What are the areas of the financial statements where climate change has, or is expected to have, a material impact?	As above, given the type of public sector organisation, the expected impact on the financial statements is minimal. Areas that are being considered around hybrid working, travel and transport are likely to have an impact on the ongoing annual costs recognised in the financial statements.
6. Does the body include climate change in its narrative reporting which accompanies the financial statements and is consistent with those financial statements?	There is no specific section included in the Annual Report and Accounts to cover climate change. As noted above, while not a public body listed and therefore does not require to report annually. However, as work develops, consideration should be given to including a specific section to incorporate any specific plans that are in place to achieve the targets and provide hyperlinks to other reporting.

Deloitte view – Climate change

As a public sector body with one office site, and as a consequence relatively low carbon emissions, the opportunities for emissions reductions are limited. The Annual Report and Accounts has a clear commitment on the work that the Commission is planning to do as part of its wider role with the Scottish Budget. We recommend that as work develops, consideration should be given to including a specific section in the Annual Report and Accounts to incorporate any specific plans that are in place to achieve the targets and provide hyperlinks to any other reporting.

3.15 Wider scope requirements (continued)

Cyber risk

Area	Management actions	Impact on SFC's Annual Report and Accounts	Impact on our audit
Cyber risk	The Commission recognise cyber risk as part of its wider strategic risk around Corporate Systems which is monitored by the Senior Management Team, ARC and Board.	No specific reference to cyber risk is included in the Annual Report and Accounts, however reference is included around the wider corporate systems risk and mitigating action in place.	<p>We have obtained an understanding the business and its internal controls in relation to cyber including assessing the maturity and coverage of the entity's cyber risk management programme.</p> <p>We obtained an understanding of the relevant laws and regulations in relation to the entity.</p>

3.16 Wider scope requirements (continued)

Climate change

Question	Scottish Fiscal Commission position
3. How does the body monitor and report progress towards meeting its emissions targets internally and publicly?	The Commission is not a public body listed in Schedule 1 of the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015, as amended by the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Amendment Order 2020, and therefore does not require to report annual on compliance with the climate change duties.
4. Has the body considered the impact of climate change on its financial statements?	No specific consideration has been given to the impact of climate change on the financial statements. Given the type of public sector organisation, based in one main office site, the expected impact on the financial statements is minimal.
5. What are the areas of the financial statements where climate change has, or is expected to have, a material impact?	As above, given the type of public sector organisation, the expected impact on the financial statements is minimal. Areas that are being considered around hybrid working, travel and transport are likely to have an impact on the ongoing annual costs recognised in the financial statements.
6. Does the body include climate change in its narrative reporting which accompanies the financial statements and is consistent with those financial statements?	There is no specific section included in the Annual Report and Accounts to cover climate change. As noted above, while not a public body listed and therefore does not require to report annually. However, as work develops, consideration should be given to including a specific section to incorporate any specific plans that are in place to achieve the targets and provide hyperlinks to other reporting.

Deloitte view – Climate change

As a public sector body with one office site, and as a consequence relatively low carbon emissions, the opportunities for emissions reductions are limited. The Annual Report and Accounts has a clear commitment on the work that the Commission is planning to do as part of its wider role with the Scottish Budget. We recommend that as work develops, consideration should be given to including a specific section in the Annual Report and Accounts to incorporate any specific plans that are in place to achieve the targets and provide hyperlinks to any other reporting.

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 Risk 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 and Accounts.
- Our internal control observations
- 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 Annual Report and Accounts.

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

Use of this report

This report has been prepared for the SFC, 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 SFC.

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

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

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



Deloitte LLP

Glasgow | 9 October 2023

Appendices



4.1 Action Plan

The following recommendations have arisen from our 2022/23 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>1. Annual and Flexi leave accrual</p> <p>Annual leave balances should be fully updated for each employee by time the calculation for the holiday accrual takes place. This will ensure the accrual is calculated based on the correct inputs.</p>	<p>Staff and managers will be reminded of the need to ensure that eHR and flexi is full up to day by the end of the financial year. This will ensure that the year end pack produced by SG People Directorate is as accurate as is possible.</p>	Medium	Governance Manager	March 2024
<p>2. Payroll accruals</p> <p>Due to the difference found between the payroll accruals and the amounts paid by the Scottish Government. SFC should ensure that they review the month end report from the Scottish Government and ensure it agrees to the SFC's tracker.</p>	<p>We monitor the payroll for the account codes that are costs to the Commission and ensure the tracker and payroll report agree each month. We don't do so for the control codes as these are managed by SG Pay team on our behalf as part of the HR shared service we purchase. We intend to improve our controls and checks for the payroll impacts when staff leave and join the Commission.</p>	Medium	Finance Manager	December 2023

4.2 Action Plan (continued)

The following recommendations have arisen from our 2022/23 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
3. Accruals balance The SFC had picked up that they incorrectly had prior year accruals in their current year balance, which they then adjusted for. To prevent this in the future, the SFC should ensure checks are done on the balance at the year end to ensure all the accruals relate to the financial year	We intend to develop a register for year-end accruals and prepayments.	Medium	Finance Manager	March 2024

4.3 Action Plan (continued)

The following recommendations have arisen from our 2022/23 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
4. Financial sustainability The Commission should develop a medium term financial strategy, building on the work done as part of the 5 year forecasts, in recognition of the wider funding pressures across the public sector and the potential impact this could have for the Commission.	We will develop a strategic document that considers our financial sustainability over the next 10-15 years that reflects our status as a small Non-Ministerial Office whose costs are principally related to staffing and who have no long term fixed assets such as buildings. This document will consider the likely demands for our work and cost pressures	Medium	Head of Strategy, Governance and Corporate Services	March 2024

4.4 Action Plan (continued)

The following recommendations have arisen from our 2022/23 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
5. Financial sustainability The Commission should consider incorporating efficiencies agreed into future budget setting papers to demonstrate how it is contributing to the wider Scottish Government efficiency target.	We already seek, identify, and include efficiencies in our annual budget request and will continue to do so. We also work with other public bodies to identify and implement shared working that can deliver savings or increased quality and will continue to do so.	Low	Head of Strategy, Governance and Corporate Services	September 2024
6. Climate change Consideration should be given to including a specific section in the Annual Report and Accounts to incorporate any specific plans that are in place to achieve the targets and provide hyperlinks to any other reporting.	As page 29 of this report notes, our opportunities for emissions reductions are limited and we are not required to report annually on compliance with climate change duties. We do already report every two years as part of our report under the Biodiversity etc Act on the actions being taken by the Commission to address climate change, recognising the limited scope and impact given the size and nature of the Commission's role and will provide hyperlinks in next year's annual report.	Low	Governance Manager	March 2024

4.5 Action Plan (continued)

We have followed up the recommendations made in by the previous auditors. We are pleased to note that one recommendation has been fully implemented and one not yet implemented, with revised target dates of 2023/24

Recommendation	Management Response	Priority	Management update 2022/23
1. Ensuring internal controls are up to date The SFC should ensure that the model internal controls checklist used as part of the year end process is the most recent version detailed in the Scottish Public Finance Manual	Responsible Person: Head of Strategy, Governance and Corporate Services	Grade 2 – Limited risk exposure	Yes. The Scottish Public Finance Manual was checked for the latest version of the Internal Control Checklist and that version was used to produce the checklist presented to the Audit and Risk Committee meeting on 10 May 2023. Fully implemented
2. Ensure the Financial tracker is consistently reconciled and reviewed The Scottish Fiscal Commission should ensure that the financial tracker is consistently reconciled and that a secondary manager review takes place and is evidenced.	Responsible Person: Head of Strategy, Governance and Corporate Services	Grade 2 – Limited risk exposure	Due to staffing changes this had not been implemented as envisaged, however, for 2023-24 the secondary manager check will be taking place. In addition, the new requirements of monthly reporting to Scottish Government require an additional monthly check which partially implements the recommendation. Partially implemented

4.6 Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which is above our clearly trivial threshold but cumulatively considered not material. Uncorrected misstatements increase the surplus by £20,039, (decrease) net assets by £ 20,039 and increase reserves by £ 20,039.

		Debit/(credit) SOCNE £	Debit/(credit) in net assets £	Debit/(credit) prior year reserves £	Debit/(credit) Equity £	If applicable, control deficiency identified
Misstatements identified in current year						
Expenses	[1],[2],[3]	(22,525)				See page 34
Accruals	[1],[2],[3]		22,525			See page 34
Aggregation of misstatements						
Total		(22,525)	(22,525)			

[1] The SFC had over accrued their payroll accruals compared to what was actually paid subsequent to year-end (£9,374).

[2] The SFC had over accrued its holiday accrual (£10,665).

[3] The entity had a mid year balance that was not reversed in the prior year.

4.7 Audit adjustments

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) SOCNE £	Debit/(credit) in net assets £	Debit/(credit) prior year reserves £	Debit/(credit) Equity £	If applicable, control deficiency identified
Misstatements identified in Current year						
Expenses	[1]	(3,805)				See page 34
Accruals			3,805			
Total		(3,805)	3,805			

[1] The SFC had prior year accruals in their current year balance which they corrected for.

4.8 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 SFC 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 are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the SFC to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.



Audit work performed:

In our planning we identified the risk of fraud in operating within expenditure resource limits and management override of controls as a key audit risk.

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

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

We have reviewed the paper prepared by management for the Audit and Risk Committee on the process for identifying, evaluating and managing the system of internal financial control. We will explain in our audit report (for all entities subject to audit) how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Concerns:

No issues or concerns have been identified in relation to fraud.

4.9 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 SFC and our objectivity is not compromised.

Fees The expected fee for 2022/23, as communicated by Audit Scotland in December 2022 is analysed below:

	£
Auditor remuneration	36,750
Audit Scotland fixed charges:	
• Pooled costs	2,440
• Audit support costs	1,290
• Sectoral cap adjustment	(11,620)
Total expected fee	28,860

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

Relationships We have no other relationships with the SFC, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.



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