



# **Standards Commission for Scotland**

2015/16 Annual audit  
report to Members and  
the Auditor General for  
Scotland

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Gillian Woolman Assistant Director, Audit Scotland is the appointed external auditor of the Standards Commission for Scotland for the period 2011/12 to 2015/16.

This report has been prepared for the use of the Standards Commission for Scotland and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.

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# Key messages

## Audit of financial statements

- We have given an unqualified independent auditor's report on the 2015/16 financial statements.

## Financial Position

- All financial targets in 2015/16 were met
- There is an underspend of £7,000 against the £232,000 approved budget.
- Financial management was found to be generally sound.

## Governance & accountability

- Overall, we found the Standards Commission has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
- We consider the Standards Commission to be open and transparent as far as confidentiality considerations allow.
- Systems of internal control operated effectively during 2015/16.

## Best Value

- Performance in respect of a number of activities is reported to members of the Standards Commission on a regular basis, usually via a review of the business plan.

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of the Standards Commission for Scotland (the Standards Commission).
2. Management of the Standards Commission is responsible for:
  - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
  - ensuring the regularity of transactions, by putting in place systems of internal control
  - maintaining proper accounting records
  - publishing with their financial statements an annual governance statement and a remuneration report.
3. Our responsibility, as the external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at [appendix II](#) and [appendix III](#).
6. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
7. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Audit of the 2015/16 financial statements

## Audit opinions

<b>Financial Statements</b>	<ul style="list-style-type: none"><li>• The financial statements of the Standards Commission for 2015/16 give a true and fair view of the state of the body's affairs and of its expenditure for the year.</li><li>• We confirm that the financial statements have been properly prepared in accordance with the 2015/16 Financial Reporting Manual (FReM) and the requirements of the Ethical Standards in Public Life etc. (Scotland) Act 2000 as amended by the Scottish Parliamentary Commissions and Commissioners etc. Act 2010 and directions.</li></ul>
<b>Regularity</b>	<ul style="list-style-type: none"><li>• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.</li></ul>
<b>Other prescribed matters</b>	<ul style="list-style-type: none"><li>• The part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the requirements of the 2015/16 FReM and the requirements of the Ethical Standards in Public Life etc. (Scotland) Act 2000 as amended by the Scottish Parliamentary Commissions and Commissioners etc. Act 2010 and directions.</li><li>• The information given in the Annual Report (comprising the Performance Report and Accountability Report) is consistent with the financial statements.</li></ul>

## Submission of financial statements for audit

8. We received the unaudited financial statements on 30 May, in accordance with the agreed timetable. The working papers were of a good standard and staff provided support to the audit team which enabled us to complete our on-site fieldwork on 31 May.

## Overview of the scope of the audit of the financial statements

9. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Risk Committee on 25 January 2016.
10. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken any non-audit related services. The 2015/16 agreed fee for the audit was £2,430 and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified one key audit risk which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure an appropriate level of assurance.

12. [Appendix I](#) sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

14. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
15. We summarised our approach to materiality in our Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £2,180 (1% of net operating costs of £218,000).
16. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £1,000 (i.e. 50% of planning materiality). We report all misstatements identified which are greater than £1,000.

## Evaluation of misstatements

17. A number of minor typographical and rounding errors that were identified during the audit have been adjusted in the financial statements. These errors were minor and were well within our materiality tolerance for the financial statements to present a true and fair view.

## Significant findings from the audit

18. International Standard on Auditing 260 (ISA 260) requires us to communicate to you significant findings from the audit as detailed below:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
19. Minor presentational and monetary rounding errors were identified within the financial statements during the course of our audit. These were discussed with relevant officers. There are no significant issues, in our view, that require to be communicated to you in accordance with ISA 260.

## Future accounting and auditing developments

### Audit appointment from 2016/17

20. The procurement process for the new round of audit appointments was completed in March 2016 and Audit Scotland will remain the appointed auditor for the Standards Commission for the five years commencing 2016/17.
21. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming Senior Audit Manager and new audit team as part of this transition.

### Code of Audit Practice

22. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. The new Code outlines the objectives and principles to be followed by auditors.
23. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition to publishing all Annual Audit Reports, from 2016/17, Annual Audit Plans and other significant audit outputs will be put on the Audit Scotland website for all audited bodies. This is irrespective of whether the body meets in public or makes external audit reports publicly available.

# Financial Management and Sustainability

24. The Standards Commission was established by Scottish Ministers on 27 January 2002 following enactment of the Ethical Standards in Public Life in Scotland etc. (Scotland) Act 2000 (the 2000 Act). It comprises a Convener, four Commission members and is supported by an office of three staff, led by the Executive Director to the Commission.
25. The role of the Standards Commission is to:
- Encourage high ethical standards in public life; including the promotion and enforcement of the Codes of Conduct and to issue guidance to councils and devolved public bodies.
  - Adjudicate on alleged breaches of the Codes of Conduct, and, where a breach is found, to apply a sanction.
26. The Standards Commission does not conduct investigations into complaints about alleged breaches of the Codes of Conduct as this function falls within the remit of the Commissioner for Ethical Standards in Public Life in Scotland (CESPLS). The Standards Commission adjudicates on cases referred by the CESPLS where, following his investigation into a complaint, he considers that a contravention of a Code of Conduct may have occurred.
27. Members of the Standards Commission consider cases referred by the CESPLS and decide to:
- direct the CESPLS to carry out further investigation;
  - hold a hearing; or
  - do neither.
28. The Scottish Parliamentary Commission and Commissioners etc. Act 2010 provided that, with effect from 1 April 2011, the Standards Commission would be supported by the Scottish Parliamentary Corporate Body (SPCB).
29. The main financial objective for the Standards Commission is to ensure that the financial outturn for the year is within the budget allocated by the SPCB.

## 2015/16 financial position

30. The Standards Commission is an independent public body and receives all of its funding directly from the SPCB. The accounts are prepared on an accruals basis. However, management also closely monitor financial performance on a cash basis.
31. At 31 March 2016 the Standards Commission's Statement of Financial Position shows a decrease in total negative equity of £7,000, from £12,000 to £5,000. This largely is attributable to the decrease in accruals from the prior year alongside a decrease in administration costs from the prior year.
32. The financial outturn for the year is within the budget allocated by the SPCB. In 2015/16 the Standards Commission recorded cash expenditure of £225,000. Cash drawn down from the SPCB totalled



£225,000 which was in line with the cash expenditure and within the £232,000 approved budget.

33. The negative equity situation continues to occur as a result of the requirement to account for activities on an accruals basis, whilst recording funding from the SPCB on a cash basis.

## Financial management

34. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the Business Manager has sufficient status to be able to deliver good financial management;
  - standing financial instructions and standing orders are comprehensive, current and promoted within the body;
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders;
  - monitoring reports do not just contain financial data but are linked to information about performance;
  - members provide a good level of challenge and question budget holders on significant variances.
35. Based on our accumulated knowledge of the Standards Commission and our review of relevant papers, we conclude that the Standards Commission has appropriate financial management arrangements in place.

## Financial Planning

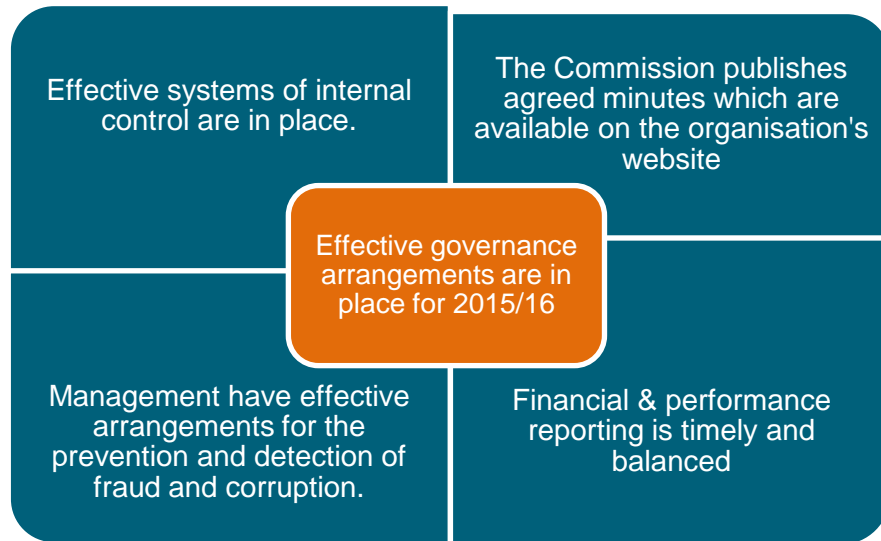
36. As funding from the SPCB is the Standards Commission's sole source of income there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the main focus for the Standards Commission is achieving a balanced financial plan to remain within their annual allocation.
37. The Standards Commission's strategic plan (2012-2016) covered the four year period up to 31 March 2016 and included a high level financial plan covering that period based on the assumed level of funding and estimated costs against each of its strategic objectives. The Standards Commission also produce an annual business plan which outlines the work being undertaken annually to meet its strategic aims.
38. The latest strategic plan for the next four year period (2016-2020) was published on the Standards Commission website in March 2016.

## Budgetary Control

39. The Standards Commission undertakes monthly budget monitoring on a cash basis to monitor expenditure against the cash budget allocated by the SPCB. This takes into account that although goods and services may be consumed within one financial year, the costs will only be counted when the invoice is actually paid – which may be in the following financial year. At the financial year end the Standards Commission prepares financial statements on an

accruals basis to meet the requirements stated in the Direction by Scottish Ministers that the statement of accounts is prepared to comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual which is in force for the year for which the statement of accounts are prepared.

# Governance and transparency



## Corporate governance

40. The Standards Commission, through its Accountable Officer, is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the Standards Commission and for monitoring the adequacy of these arrangements.
41. The Executive Director is accountable for the finances of the Standards Commission to the Scottish Parliament and is the designated Accountable Officer.

42. The Standards Commission is governed by a Convener and four Commission Members, who are all appointed on a part time basis. In 2015/16 they met ten times to discuss and agree on strategic Commission matters and to consider Breach reports. The Members also consider recommendations from the Human Resources Committee and the Audit and Risk Committee.
43. We concluded that the Standards Commission has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

## Transparency

44. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>) for board members of public bodies was updated and reissued in April 2015. The Guidance states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:
  - holding an annual open meeting
  - holding board meetings in public unless there is a good reason not to
  - publishing summary reports and/or minutes of meetings
  - inviting evidence from members of the public in relation to matters of public concern
  - consulting stakeholders and users on a wide range of issues

- making corporate plans and the annual report widely available.
45. Whilst the Standards Commission is a body corporate it seeks to apply the principles detailed within On Board to its operating procedures where this is practicable and reasonable. Whilst the Standards Commission and its Committee meetings are held in private, due to the confidential and sensitive nature of their business, the minutes from the meetings of the Standards Commission are available on the Standards Commission website. The Standards Commission holds its Hearings in public and in the locality of the Council or Public Body where the Respondent is based. The outcome of each Hearing is subject to a press release and is posted on the Standards Commission's website.
46. Overall we concluded that the Standards Commission is open and transparent as far as confidential considerations allow. .

## Internal control

47. The Standards Commission uses the SPCB systems to process all payments for goods and services under a shared service agreement with the Scottish Parliament's Finance Office.
48. For 2015/16 we queried the external auditors of the SPCB to determine if there were any issues found within their review of the SPCB's key control systems. The auditors confirmed that there were no material weaknesses in the accounting and internal control systems during the 2015/16 audit which could adversely affect the Standards Commission's ability to record, process, summarise and

report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Internal audit

49. Internal audit provides the Audit and Risk Committee and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
50. Internal audit is provided to the Standards Commission through a Memorandum of Understanding between the Standards Commission and the SPCB. The 2015/16 internal audit programme of work included one operational audit reviewing the organisation of and conduct of Hearings. As a result, we were unable to place reliance on this work to reduce our audit testing for 2015/16. Instead we applied a substantively based audit approach (detailed checking of transactions) to obtain our assurance.
51. There was no Annual Statement of Assurance (opinion) provided by the Head of Internal Audit to the Standards Commission for 2015/16. For completeness and to support the Governance Statement we recommend that the Head of Internal Audit provides an independent opinion on the adequacy and effectiveness of the internal controls systems operating by the SPCB.

## Arrangements for the prevention and detection of fraud

52. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions.
53. In our opinion the Standards Commission's overall arrangements for the prevention of fraud, irregularity and corruption are satisfactory, although it should be noted that no system can eliminate the risk of fraud, irregularity or corruption entirely.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

54. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place and have concluded that appropriate arrangements exist within the Standards Commission.

# Best Value

## Arrangements for securing Best Value

55. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
56. The Auditor General may require that we consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of Best value. Where such requirements are not specified we may, in conjunction, with the Standards Commission agree to undertake local work in this area.
57. We did not undertake any specific work in this area during 2015/16.

## National performance audit reports

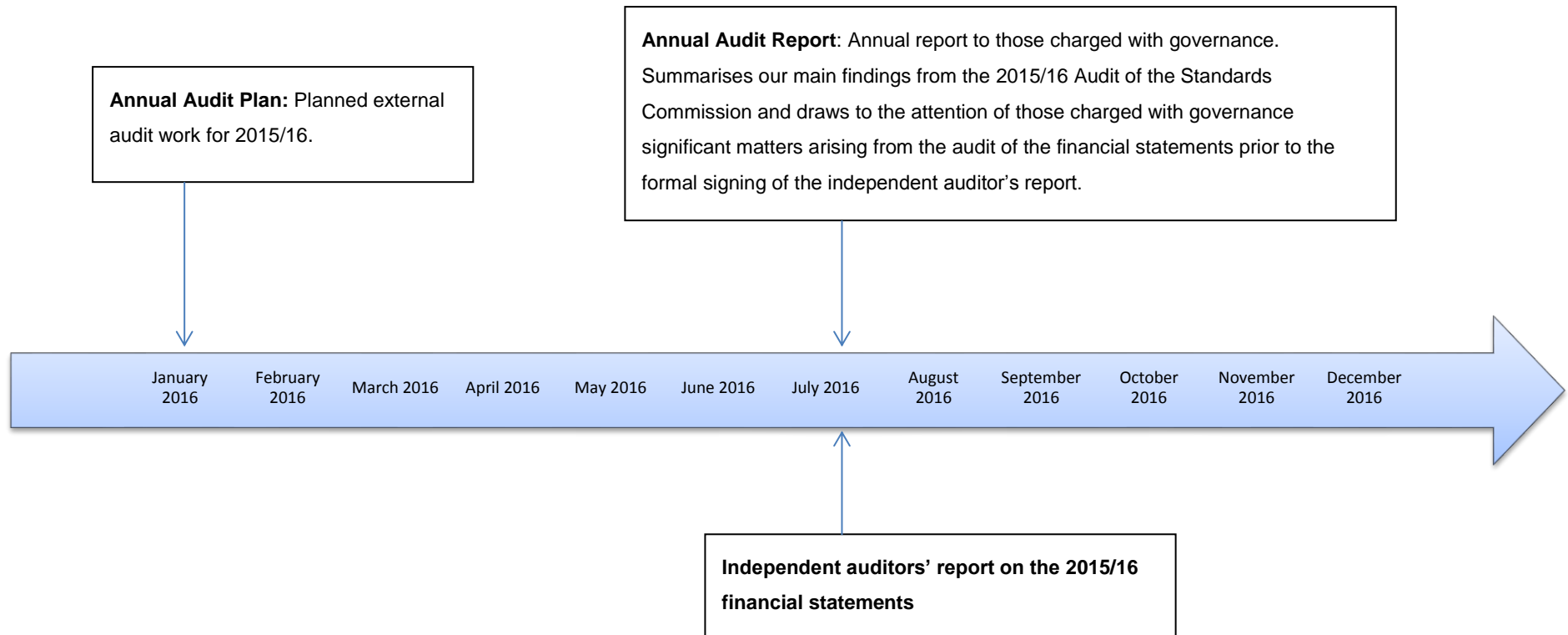
58. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued that may be of interest to the Standards Commission. A summary of these reports is outlined in [Appendix III](#).

# Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<p>The budget funding for 2015/16 of £232,000 is a 2.5% increase in the cash target from 2014/15, which was determined on the basis of operational activities identified within the 2015/16 Business Plan. The number of Hearings held each operational year is demand driven and outwith the control of the Standards Commission. This continues to be a challenge in the management of the financial arrangements of the Standards Commission. The Scottish Parliamentary Corporate Body and the Standards Commission acknowledge that accurately determining budget requirements in this area is outwith their control.</p> <p>Sound financial planning and monitoring arrangements will be key to delivering expenditure within a balanced budget.</p>	<p>Financial monitoring reports reviewed against outturn by the Executive Team.</p>	<p>We reviewed the financial outturn against the cash budget and the Standards Commission were £7,000 underspent as a result of fewer Hearings held than in prior years. This was also due to a reduction in staff travel and expenses and venue costs.</p>

# Appendix II: Summary of local audit reports 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16

