



Scott-Moncrieff
business advisers and accountants

Scottish Housing Regulator

External Audit Plan
2016/17

March 2017

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Introduction

Introduction

1. This document summarises the work plan for our 2016/17 external audit of the Scottish Housing Regulator (SHR).
 2. The core elements of our work include:
 - an audit of the SHR 2016/17 financial statements and related matters;
 - an interim audit, taking into consideration the work of internal audit, on accounting systems, corporate governance arrangements;
 - a review of arrangements for governance and transparency, financial management, financial sustainability and value for money; and
 - any other work requested by Audit Scotland, for example, local performance audit work.
- our proposed audit outputs and timetable; and
 - background to Scott-Moncrieff and the audit team.

Adding value through the audit

Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of Scottish Parliament. The Auditor General is independent and not subject to the control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of most public bodies in Scotland outside the local government sector, including non-ministerial central government departments in Scotland, and reporting on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Auditor General has appointed Scott-Moncrieff as external auditor of NHS 24 for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2016/17 and summarises:
 - the responsibilities of Scott-Moncrieff as the external auditor;
 - our audit strategy;
 - our planned audit work and how we will approach it;
6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SHR through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help SHR promote improved standards of governance, better management and decision making and more effective use of resources.
7. Any comments you may have on the service we provide would be greatly appreciated at any time. Full contact details for your audit team can be found in Appendix 1.
8. While this plan is addressed to the Audit and Risk Assurance Committee (ARAC), it will be published on Audit Scotland's website www.audit-scotland.gov.uk.

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Responsibilities of Scott-Moncrieff

Responsibilities of Scott-Moncrieff

Code of Audit Practice

9. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.
10. A new Code of Audit Practice was published in 2016 and applies to external audits for financial years starting on or after 1 April 2016. This Code replaces the previous one issued in 2011.

Auditor responsibilities

11. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
12. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
13. These areas of focus feature prominently in the Code of Audit Practice which came into force during the 2016/17 audits.
14. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of the audited body. Where the full application is judged by auditors not to be appropriate then annual audit work on the wider scope should only be undertaken on:
 - appropriateness of the disclosures in the governance statement; and
 - financial sustainability of the body and the services that it delivers over the medium to longer term.

Exhibit 1: Audit dimensions of wider scope public audit

Audit area	Scope
Financial sustainability	Financial sustainability looks forward to the medium (two to five years) and the longer term (over five years) to consider whether the body is planning effectively to allow it continue to fulfil its functions in an affordable and sustainable manner.
Financial management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
Governance and transparency	Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.
Value for money	Value for money is concerned with using resources effectively and continually improving services.

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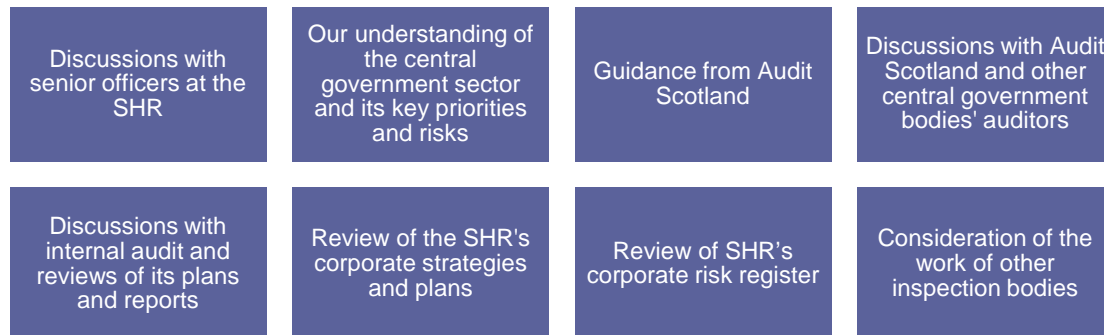
Audit strategy

Audit strategy

Risk-based audit approach

15. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the SHR. This ensures that our audit focuses on the

areas of highest risk. Our audit planning is based on:



16. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

Communications with those charged with governance

17. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with SHR that these communications will be through the ARAC.

Professional standards and guidance

18. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK and Ireland) (ISAs), the International Standard on Quality Control 1 (UK and Ireland), Ethical Standards, and applicable Practice Notes and other guidance issued by the Auditing Practices Board (APB).

Partnership working

19. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

20. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

21. Audit Scotland undertakes national performance audits on issues affecting central government bodies. We will review SHR's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We plan to assess the extent to which the SHR uses the national performance reports as a means to help improve performance at the local level.

22. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Internal audit

23. We are committed to avoiding duplication of audit effort and ensuring an efficient use of

SHR's total audit resource. SHR's internal audit function is provided by Scottish Government Internal Audit service. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to SHR is used efficiently and effectively.

Shared systems and functions

24. Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and sharing audit findings. The SHR relies on systems owned and operated by the Scottish Government. These central systems are subject to an annual review by Audit Scotland.
25. Audit Scotland will share with us their findings on work carried out on those systems.

Other inspection bodies

26. We plan to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. Through enquiry of management as part of our initial planning discussions, we have not identified any other inspection work planned for 2016/17 which is directly relevant to our audit, other than the work of internal audit and Audit Scotland. We will monitor this situation over the course of 2016/17 and update our plans as necessary.



Annual accounts

Annual accounts

Introduction

27. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the SHR's annual accounts.

Approach to audit of annual accounts

28. Our opinion on the annual accounts will be based on:

Risk-based audit planning

29. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

An audit of key systems and internal controls

30. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.

31. The nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the SHR's own policies and procedures.

32. Wherever possible we will look to integrate internal audit's reviews of systems and controls with our own work. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

A final audit of the annual accounts

33. During our final audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.

34. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the 2016/17 Financial Reporting Manual (FRoM) and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.

35. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

Independent auditor's report

36. Our opinion on the truth and fairness of the annual accounts and the regularity of transactions will be set out in our independent auditor's report which will be included within the annual accounts.

37. In line with the Companies Act 2006 requirements that apply in the private sector, we are also required to give an opinion on the remuneration report, annual governance statement and whether management commentaries are consistent with the disclosures in the annual accounts.

Materiality

38. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

39. Our initial assessment of materiality for the annual accounts is £0.077million, being 1.8% of SHR's 2015/16 net operating cost. Achieving a breakeven position is a key target for SHR and one of the principal considerations for the users of the accounts when assessing financial performance. We have currently assessed materiality on the assumption that the risk of misstatement to the annual accounts is low, however, we will review our assessment of materiality throughout our audit.

40. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material

misstatement. We will apply a high risk rating to the key audit risks identified in Exhibit 2, and will review our assessment of performance materiality throughout our audit.

Area risk assessment	Weighting	Performance materiality
High	45%	£0.035million
Medium	55%	£0.042million
Low	70%	£0.0540million

41. We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of 2% of the overall materiality figure (i.e. over £4,000); and
- Other misstatements below the 2% threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the annual accounts

42. Auditing standards require that we inform the ARAC of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the ARAC if our assessment changes significantly during the audit.

Exhibit 2 – Key audit risks in the annual accounts

1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.



43. In response to this risk we will review SHR's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

2. Revenue Recognition

Under ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that NHS 24 could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.



44. SHR does not undertake any income generating activities. Funding from Scottish Government is SHR's only source of income. We do not believe the risk of fraud in revenue recognition is applicable to the annual accounts and have therefore rebutted this risk.

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Wider scope audit

Wider scope audit

Introduction

- 45. The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions; financial sustainability, financial management, governance and transparency and value for money. At the outset we will consider SHR's self-evaluation arrangements as they relate to these four dimensions.
- 46. At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit in relation to financial sustainability. We have not, at this stage, identified any significant risks in relation to the other three dimensions; financial management, governance and transparency or value for money. Audit planning however is a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our annual audit report.
- 47. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of the audited body.
- 48. We have concluded that the full application is not appropriate due to the size of the SHR. Our annual audit work on the wider scope therefore will consider:
 - appropriateness of the disclosures in the governance statement; and
 - financial sustainability of the body and the services that it delivers over the medium to longer term.
- 49. The judgement on the applicability of the full wider scope is an annual one. We will reconsider whether our judgement remains appropriate in subsequent annual audits.

Exhibit 3 - Wider scope audit

Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether SHR is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.

Board responsibilities	Our audit approach
<p>SHR is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with any statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • How the organisation plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position. 	<p>During our 2016/17 audit we will consider SHR's financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control SHR's operations and use of resources.</p> <p>Key audit risk</p> <p>Scottish Government allocated SHR a revenue allocation for 2016/17 of £3.7million, 10% lower than the 2015/16 allocation of £4.1million. This represents a significant challenge for SHR to manage the decrease in funding.</p> <p>In December 2016, the 31 March 2017 position was forecast £69,398 overspend against budget. SHR have discussed the forecast overspend with Scottish Government and understand an additional budget</p>

Exhibit 3 - Wider scope audit

allocation will be received in April 2017 to fund overspend against budget.

In December 2016 Scottish Government announced 2017/18 draft funding for SHR of £3.8million. Without longer term funding allocations it is challenging for SHR to undertake meaningful medium term financial planning.

During our audit we will consider whether the SHR has adequate arrangements in place for managing its financial position and its use of resources.

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Audit outputs, timetable and fees

Audit outputs, timetable and fees

Audit output	Format	Description	Target date
External audit plan	Report	This report sets out the scope of our audit for 2016/17.	March 2017
Interim management report	Report	This report will summarise our interim work on accounting systems and corporate governance arrangements.	March 2017
Annual Report to the Board and the Auditor General for Scotland	Report	At the conclusion of each year's audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work under the Code of Audit Practice.	June 2017
Independent Auditor's Report	Report	This report will contain our opinions on the truth and fairness of the annual accounts and on the regularity of transactions.	August 2017

Audit outputs

50. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate. We will endeavour to supply a draft report within three weeks of completion of the fieldwork. We will require formal management responses within two weeks of receipt of the draft report. On occasion these timescales may need to be shortened, e.g. to meet the June 2017 ARAC and certification deadlines.

51. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

accounts and meets the agreed timetable for audit. The expected fee will be reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.

53. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

54. For 2016/17 we propose setting the audit fee at the expected fee level. The expected fee for the SHR for the 2016/17 audit is as follows:

Audit fee

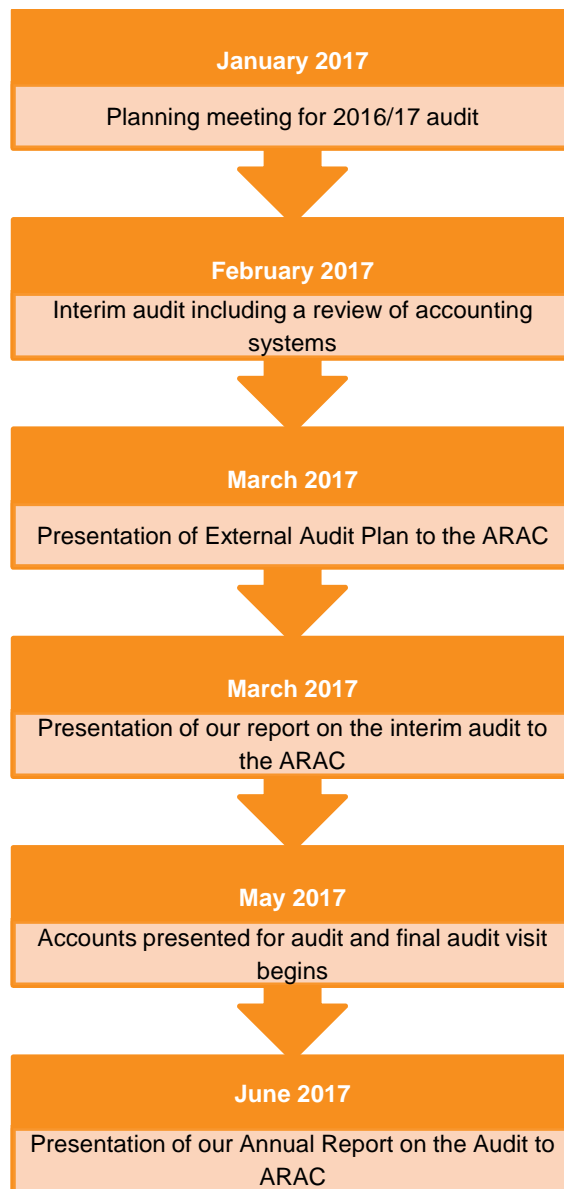
52. Audit Scotland has completed a review of funding and fee setting arrangements and as a result revised its fee strategy. It now sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft

	2016/17
Auditor remuneration	£16,560
Pooled costs	£ 2,230
Performance audit and Best Value	£0
Audit support costs	£ 930
Total expected fee	£19,720

55. We will take account of the risk exposure of the Board and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. We have agreed that draft accounts will be provided week commencing 13 May 2017, during the course of our onsite work. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

Audit timetable

56. The dates for our interim and final audits have been discussed with the Director of Strategy and Communications. A summary timetable, including audit outputs, is set out below:



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Appendices

Appendix 1: Your audit team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 18 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

We have been external auditors within the public sector for at least fifty years. We provide a

Your audit management team



Nick Bennett

Partner

nick.bennett@scott-moncrieff.com

Nick has been the Audit Partner on the NHS 24 audit for the last five years. Nick has over 20 years' experience of public sector auditing and has been heavily involved in developing public sector accounting standards.

Nick's experience and expertise is acknowledged by both clients and by other professionals right across the public sector.

Nick will be your appointed Engagement Lead.



Georgina Philp

Assistant Manager

georgina.philp@scott-moncrieff.com

Georgina has over five years' public sector experience. She has delivered external audit services to a range of public sector bodies, including local government.

Georgina will manage the onsite audit team and work alongside Nick to deliver the audit engagement.

Confirmation of independence

ISA 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we will comply with APB Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and SHR, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Statement of understanding

Introduction

The purpose of this Statement of understanding is to clarify the terms of our appointment and the key responsibilities of SHR and Scott-Moncrieff.

Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant SHR staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statement strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for SHR's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from SHR during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Chief Executive.

Internal audit

It is the responsibility of SHR to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Nick Bennett. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. We will endeavour to supply a draft report within three weeks of the completion of the fieldwork of each element of work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer. Management responses should be prepared and provided to us within two weeks of the receipt of the draft report.

These timescales may need to be truncated, e.g. to meet June 2017 ARAC reporting deadline.

Agreement of terms

We shall be grateful if SHR's ARAC would consider and note this Statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



Scott-Moncrieff
business advisers and accountants