

Standards Commission for Scotland

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Standards Commission for Scotland
January 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters.

Audit risks

2. Based on our discussions with staff and a review of supporting information we have identified the following main risk areas for Standards Commission for Scotland (SCfS). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

| Audit Risk | Management assurance | Planned audit work |
|--|---|--|
| Financial statement issues and risks | | |
| <p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p> | <p>There are a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and a Code of Conduct for staff which incorporates whistleblowing and fraud policies. Internal audit reviews a range of financial systems and related controls and provides an opinion on the control environment</p> | <p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> |
| Wider dimension risks | | |
| <p>2 Governance and transparency</p> <p>The 2015/16 Standards Commission Annual Report identified a lack of sufficient member capacity in dealing with Hearing Related functions. As a result there is a risk that the Members of the SCfS will be unable to perform their duties.</p> | <p>Succession plan for new Members due to be appointed in early 2017 to be agreed with Officeholders Services / SPCB</p> <p>Ensure Members availability checked before Hearing and Event dates are finalised.</p> | <p>Discuss and monitor plans that the SCfS put in place to address this risk.</p> |

Reporting arrangements

3. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.
4. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.
5. We will provide an independent auditor's report to the Standards Commission for Scotland and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

| Audit Output | Target date | Audit & Risk Committee (ARC)/ Standards Commission (SC) Dates |
|--|-------------|---|
| Annual Audit Plan | 28/02/2017 | 23/01/2017 (ARC) |
| Annual Audit Report including ISA 260 requirements | 31/07/2017 | 24/07/2017 (ARC) |
| Signed Independent Auditor's Report | 31/07/2017 | 31/07/2017 (SC) |

Audit fee

6. The audit fee for the 2016/17 audit of the Standards Commission for Scotland is £2,590. In determining the audit fee we have taken account of the risk exposure of the SCfS and the planned management assurances in place. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package, by the 30 May 2017.
7. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit & Risk Committee and Accountable Officer

8. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.
9. The audit of the financial statements does not relieve management or the Audit & Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

10. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

Audit scope and timing

Financial statements

11. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Standards Commission for Scotland and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Standards Commission for Scotland will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

12. We will give an opinion on the financial statements as to whether:

- they give a true and fair view in accordance with the Ethical Standards in Public Life etc. (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs and of its net expenditure
- they have been properly prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2016/17 Financial Reporting Manual
- they have been prepared in accordance with the requirements of the Ethical Standards in Public Life etc. (Scotland) Act 2000 and directions made thereunder by Scottish Ministers
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Materiality

13. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Standards Commission for Scotland are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

| Materiality level | Amount |
|--|--------|
| Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of net operating costs for the year ended 31 March 2017 based on the latest audited accounts for 2016. | £2,180 |
| Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 90% of planning materiality. | £1,960 |
| Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality. | £100 |



14. It should be noted that we continue to exercise our professional judgement in certain areas of the financial statements such as the performance report, remuneration report and annual governance statement. All unadjusted errors will be reported to the Audit & Risk Committee.

Timetable

15. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit & Risk Committee dates:

Exhibit 4

Financial statements timetable

|  Key stage |  Date |
|---|--|
| Latest submission date of unaudited Standard Commission for Scotland financial statements with complete working papers package | 30 May 2017 |
| Latest date for final clearance meeting with the Business Manager | 12 June 2017 |
| Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance | 16 June 2017 |
| Audit & Risk Committee | 24 July 2017 |
| Independent auditor's report signed | 31 July 2017 |

Internal audit

16. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we

carry out an assessment of the internal audit function. The Standards Commission for Scotland rely on the internal audit function of the Scottish Parliamentary Corporate Body (SPCB).

Adequacy of Internal Audit

17. We are currently carrying out a review of the effectiveness of the internal audit function to ensure it operates in accordance with relevant guidance and has sound documentation standards and reporting in place.

Audit dimensions

18. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money. The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In the light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2016/17 audit of the Standards Commission for Scotland.

Financial sustainability

19. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the Standards Commission for Scotland can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Independence and objectivity

20. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

21. The engagement lead and appointed auditor for Standards Commission for Scotland is Stephen Boyle, Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Standards Commission for Scotland.

Quality control

22. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and

legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

23. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

24. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Standards Commission for Scotland

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