

Scottish Parliamentary Corporate Body

Annual Audit Plan 2017/18



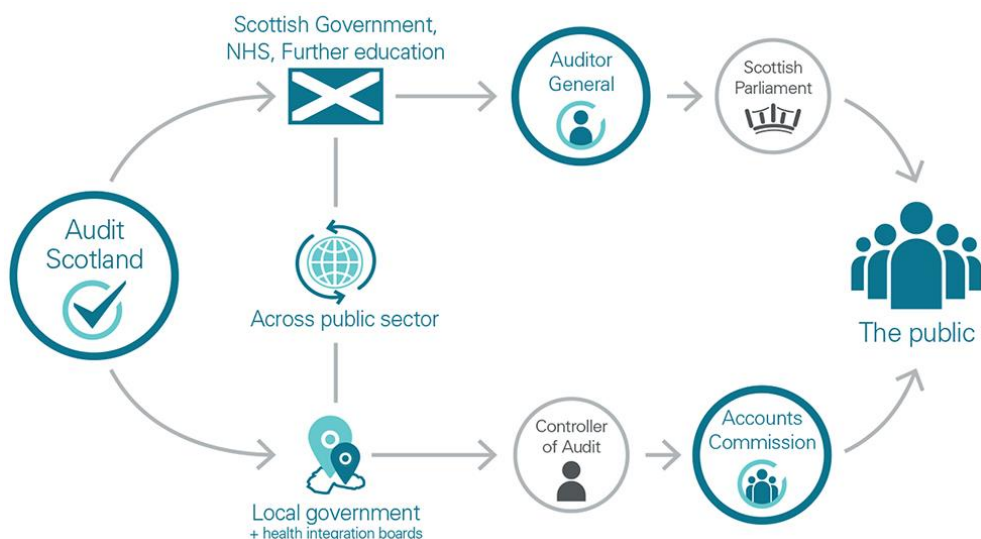
 AUDIT SCOTLAND

Prepared for Scottish Parliamentary Corporate Body
November 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 and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, financial management and financial sustainability.

Audit risks

3. Based on our discussions with staff, attendance at Advisory Audit Board (AAB) meetings and a review of supporting information we have identified the following main risk areas for Scottish Parliamentary Corporate Body (SPCB). 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

Key audit risks

Audit Risk	Source of 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>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over expenditure</p> <p>ISA 240 requires audit work to consider the risk of fraud over expenditure in any audit. The risk of fraud over expenditure applies to the SPCB due to the nature and extent of expenditure incurred in supporting members.</p>	<p>Experienced and professional management</p> <p>Sound system of internal control</p> <p>A comprehensive programme of internal audits which is agreed by the AAB</p> <p>Participation in the NFI exercise every two years. No</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions.</p>

Audit Risk	Source of assurance	Planned audit work
<p>issues arising in the 2016-17 exercise.</p>		
<p>Wider dimension risks</p>		
<p>3 Information and Cyber Security</p>		
<p>In the past year public sector organisations in Scotland were subject to an increasing number of cyber-attacks. Successful cyber attacks can result in significant disruptions to operations, loss of data and reputational damage.</p> <p>In addition, the new General Data Protection Regulation (GDPR) becomes effective from 25 May 2018 and is more extensive in scope than the current requirements of the Data Protection Act. Non compliance with the GDPR may result in financial penalties.</p>	<p>Recent internal audit review of Cyber Security Maturity, and associated follow up of recommendations, offered strong assurance that arrangements are in place and are operating effectively. This was evidenced by our response to the recent 'brute force' cyber attacks. The risk of a breach has been identified separately in the Corporate Risk Register and internal controls and mitigating actions are set out and are subject to quarterly review and challenge by LG. With regards to GDPR, a review of the project (to enable us to assess preparedness overall, is in the Internal Audit Plan for 2017/18. Work will commence in January 2018 and will be reported to the AAB in March 2018.</p>	<p>A consideration of SPCB's arrangements in relation to the cyber-security.</p> <p>Monitor and assess preparedness for complying with the requirements of the new General Data Protection Regulation.</p>
<p>4 New powers and EU withdrawal</p>		
<p>The Scottish Parliament's powers are changing substantially as a result of both the Scotland Act 2012 and the Scotland Act 2016. Further new powers may follow, as consequence of the UK's withdrawal from the European Union. As well as increasing responsibility for raising revenues and social security, these new powers will also bring new opportunities and challenges.</p> <p>Future changes in the Parliament's powers may place additional pressures on the parliamentary service and there is a risk that the service lacks the capacity to ensure the provision of high quality support and resources to Members.</p>	<p>The Constitutional Issues Board continually monitors Brexit-related and other impacts in terms of assessing future parliamentary scrutiny demands. Recent developments include the possibility of Brexit transition periods and parliamentary reforms as recommended by the Commission on Parliamentary Reform. All of those factors have been quantified and included within the SPCB's budget submission for 2018-19 with the aim of anticipating relevant demands over the next 2 - 3 years.</p>	<p>Review the work of the Constitutional Issues Board in managing the impact and preparedness for the implementation of the new powers.</p> <p>Continuing review of the reports to SPCB on the effectiveness of the mitigating actions aimed at managing the risk of the lack of capacity of the parliamentary service.</p>

Reporting arrangements

4. 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.

5. 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.

6. The Auditor General for Scotland will provide an independent auditor's report to the Scottish Parliament summarising the results of the audit of the annual accounts. We will provide the Principal 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

Audit outputs

Audit Output	Target date	AAB or SPCB date
Annual Audit Plan	February 2018	6 December 2017 (AAB)
Annual Audit Report	September 2018	TBC (AAB)
Independent Auditor's Report	September 2018	TBC (AAB)

Audit fee

7. The audit fee for the 2017/18 audit of SPCB has yet to be set by Audit Scotland. In determining the audit fee we will take account of the risk exposure of Scottish Parliamentary Corporate Body, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. The 2017/18 audit fee will be based on the assumption that the SPCB will maintain the operation of sound governance arrangements throughout the year and will prepare comprehensive and accurate draft accounts in line with the agreed timetable for the audit. Our audit approach assumes receipt of the unaudited 2017/18 financial statements, with a complete working papers package by 6 July 2018.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, 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

Scottish Parliamentary Corporate Body and Principal Accountable Officer

9. 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.

10. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Appointed auditor

11. 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.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

13. 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 SPCB and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how SPCB 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.

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

- they give a true and fair view of the financial position of SPCB and its expenditure and income
- they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with relevant legislation.

Materiality

15. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

16. We calculate materiality at different levels as described below. The calculated materiality values for SPCB are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 3

Planning materiality

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 gross expenditure for the year ended 31 March 2017 based on the latest audited accounts.	£1.065m
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 75% of planning materiality.	£0.799m
Reporting threshold (i.e. clearly trivial) – 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.	£0.05m



17. We review and report on other information published with the financial statements including the performance report, governance statement and the remuneration and staff report. Any issue identified will be reported to the Advisory Audit Board.

Timetable

18. 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 Advisory Audit Board dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	6 July 2018
Latest date for final clearance meeting with Head of Finance and Security Group	17 August 2018
Issue of Annual Audit Report including ISA 260 report to Advisory Audit Board	TBC
Independent auditor's report signed	TBC

Internal audit

19. 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. Internal audit is provided by SPCB's Head of Internal Audit and supported by work of Grant Thornton.

Adequacy of Internal Audit

20. We plan to carry 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 procedures in place.

Areas of Internal Audit reliance

21. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Reimbursement of Members' Expenses

22. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Members' Local Office Reviews
- Scottish Parliament Corporate Cards
- Business Continuity
- General Data Protection Regulation

Audit dimensions

23. Our audit is based on audit dimensions that frame the wider scope of public sector audit requirements and includes consideration of financial sustainability, financial management and governance and transparency.

Financial sustainability

24. 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

Financial management

25. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether SPCB has arrangements in place to ensure systems of internal control are operating effectively
- whether SPCB can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how SPCB has assured itself that its financial capacity and skills are appropriate
- whether SPCB has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

26. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether SPCB can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision – making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Independence and objectivity

27. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

28. Caroline Gardner, the Auditor General for Scotland is your appointed auditor. The audit will be directed by Stephen Boyle, Assistant Director of Audit. 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 SPCB.

Quality control

29. 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.

30. 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 (and relevant supporting guidance) 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.

31. 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 Stephen Boyle.

Adding Value

32. Through our audit work we aim to add value to SPCB. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the SPCB has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

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