

Standards Commission for Scotland

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Standards Commission for Scotland

January 2018

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.

Contents

Risks and planned work	4
Audit risks	4
Reporting arrangements	5
Audit fee	5
Responsibilities	6
Audit scope and timing	7
Financial statements	7
Materiality	7
Internal audit	8
Audit dimensions	9
Independence and objectivity	9
Quality control	10
Adding Value	10

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 and financial sustainability.

Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for our audit of the 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

2017/18 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>
Wider dimension risks		
<p>2 Data Protection and Cyber Security</p> <p>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</p>	<p>Provide evidence in support of SCfS actions to demonstrate working towards compliance with GDPR requirements.</p>	<p>Monitor and assess preparedness for complying with the requirements of the new General Data Protection Regulation.</p> <p>Monitor and review progress made by the SCfS in regards to addressing cyber security.</p>

Audit Risk	Source of assurance	Planned audit work
<p>result in financial penalties.</p> <p>Cyber security has become an increasingly important issue given the recent cyber attacks on public sector bodies. Successful cyber attacks can result in significant disruptions to operations, loss of data and reputational damage.</p>	<p>Provide evidence to demonstrate working towards compliance with best practice as advised by SPCB & Scottish Government's Cyber Resilience Unit</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. We will provide an independent auditor's report to the SCfS and the Auditor General for Scotland setting out our opinions on the annual accounts. 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

2017/18 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	February 2018	23 January 2018
Annual Audit Report	September 2018	23 July 2018
Independent Auditor's Report	September 2018	On or around 30 July 2018

Audit fee

7. The proposed audit fee for the 2017/18 audit of the SCfS is £2,630 (£2,590 2015/16). In determining the audit fee we have taken account of the risk exposure of the SCfS, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 31 May 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 out with our planned audit activity.

Responsibilities

Audit and Risk Committee and 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 the Audit and Risk Committee as 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 (including supplementary guidance) 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 the SCfS 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 the SCfS 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 state of the body's affairs as at 31 March 2018 and of its net expenditure for the year then ended;
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 FReM;
- whether 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 the Scottish Ministers; and
- the regularity of the expenditure and income.

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 the SCfS 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 2% of gross expenditure for the year ended 31 March 18 based on the latest budget for 2017/18.	£5,000
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.	£4,500
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.	£250

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

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 Audit and Risk Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	31 May 2018
Latest date for final clearance meeting with Business Manager	18 June 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	18 June 2018
Independent auditor's report signed	On or around 30 July 2018

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 the internal audit function of the SPCB.

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 the relevant guidance and has sound documentation standards and reporting procedures in place.

Audit dimensions

21. 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 2017/18 audit of the Standards Commission for Scotland.

22. 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

23. 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.

24. The engagement lead and appointed auditor for the SCfS 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 the SCfS.

Quality control

25. 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.

26. 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 external quality reviews.

27. 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.

Adding Value

28. Through our audit work we aim to add value to the SCfS. 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 SCfS 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.

Standards Commission for Scotland

Annual Audit Plan 2017/18

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk