

Commissioner for Ethical Standards in Public Life in Scotland

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for the Commissioner for Ethical Standards in Public Life in Scotland

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of The Commissioner for Ethical Standards in Public Life in Scotland (Ethical Standards Commissioner). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts leading to an independent audit opinion
- audit opinions on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Accountability Report and the Remuneration and Staff Report
- consideration of best value arrangements and wider scope areas: financial sustainability and governance.

Audit appointment

2. We are pleased to be appointed as the external auditor of the Commissioner for Ethical Standards in Public Life in Scotland for the period 2022/23 to 2026/27 inclusive. You can find details of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to the Ethical Standards Commissioner through our external audit work by being constructive and forward looking, identifying and encouraging good practice and by making recommendations. In so doing, we will help the Commissioner to promote improved standards of governance.

Respective responsibilities of the auditor and the Ethical Standards Commissioner

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Ethical Standards Commissioner. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at the Ethical Standards Commissioner's Office. In doing this, we aim to support improvement and accountability.

The Ethical Standards Commissioner's responsibilities

9. The Ethical Standards Commissioner is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. The Ethical Standards Commissioner, as Accountable Officer, has 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 deliver their objectives.

Financial statements audit planning

Introduction

11. The annual report and accounts are an essential part of demonstrating the Ethical Standards Commissioner's stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the Ethical Standards Commissioner are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for the Ethical Standards Commissioner

Materiality	Amount
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Ethical Standards Commissioner's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.</p>	£19,900
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be</p>	£12,935

Materiality	Amount
considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at 5% of planning materiality.	£1,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the Ethical Standards Commissioner, its major transaction streams, key systems of internal control and risk management processes, our discussions with management, consideration of the work of internal audit and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing, make inquiries of relevant officers about inappropriate or unusual activity relating to the processing of journal entries and other adjustments and consider the need and extent of detailed journal entry testing. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare

Significant risk of material misstatement	Sources of assurance	Planned audit response
otherwise appear to be operating effectively.		accounting estimates compared to the prior year. <ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments.

Source: Audit Scotland

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

19. We have rebutted this risk as funding is received from the Scottish Parliamentary Corporate Body which is clearly communicated and can be readily agreed to third party confirmation.

20. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

21. We have also rebutted this risk as the main expenditure stream is staff costs which is not considered to be an area of risk. Other major costs include property costs, depreciation and legal advisor and auditor fees which can be readily verified. This leaves residual expenditure which mainly comprises relatively low value items. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

22. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Wider Scope and Best Value

Introduction

23. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

24. However, paragraphs 83 and 85 to 86 of the [Code of Audit Practice](#) address a more limited audit of wider-scope areas for any public bodies that are less complex owing to their size and limited financial activity (referred to as Less Complex Bodies).

25. Paragraph 27 of the [supplementary guidance](#) sets out the quantitative criteria that defines a less complex body. The Ethical Standards Commissioner's gross revenue, gross assets and gross liabilities do not breach the criteria level (£10.2m) set out in the supplementary guidance. In addition, there are no qualitative reasons that would preclude the less complex approach to be taken. In light of this, we plan to apply the Less Complex Body approach of the Code to the 2022/23 audit of the Ethical Standards Commissioner.

26. In summary, the wider scope areas for less complex bodies covers the following:

- **Financial sustainability** - 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 financial sustainability in the longer term. We define this as short term (up to two years), medium term (two to five years) and longer term (longer than five years).
- **Governance Statement Review** – this will be carried out as part of our audit of the financial statements. We will express our opinion in the Independent Auditor's Report.

Wider scope risks

27. We have identified wider scope audit risks in the areas set out in [Exhibit 3](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2022/23 wider scope risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Substantial governance weaknesses were reported in 2021 resulting in Section 22 reports from the Auditor General</p> <p>The Commissioner undertook significant work during 2022 which put governance arrangements on a firmer footing. As reported by the Auditor General in January 2023, significant challenges remain:</p> <ul style="list-style-type: none"> • there is a significant backlog of outstanding complaints. • there has been a change in structure and additional staffing have been recruited to increase capacity. These arrangements need to be sustainable. Recruitment and training require time to be properly embedded. • there is an absence of medium term financial planning. 	<p>Management action plans and management team updates.</p>	<ul style="list-style-type: none"> • Through discussion with officers, a review of progress, and consideration of the new arrangements, judgements will be made on the level of improvement achieved. • We will report on the updated position in our Annual Audit Report.

Source: Audit Scotland

28. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider cyber security threats.

Cyber Security

29. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider the Commissioner's arrangements for managing and mitigating cyber security risks.

Duty of Best Value

30. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that the Ethical Standards Commissioner has such arrangements in place.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

31. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

32. 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 officers to confirm factual accuracy.

33. We will provide an independent auditor's report to the Ethical Standards Commissioner, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the Ethical Standards Commissioner and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

34. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by 31 October 2023.

Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Advisory Audit Board Meeting Date
Annual Audit Plan	31 March 2023	26 April 2023
Independent Auditor's Report (IAR)	w/c 2 October 2023 (proposed IAR)	16 or 23 October 2023 (tbc)
Annual Audit Report	w/c 9 or 16 October 2023	16 or 23 October 2023 (tbc)

Source: Audit Scotland

Timetable

35. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

36. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

37. We intend to undertake the majority of the 2022/23 audit by remote working but we will continue to work closely with management to ensure the most efficient approach is followed. Timeframes and logistics for the completion of the audit will be kept under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	Unaudited accounts due by 30 June 2023 with working paper package to follow by 3 July 2023
Consideration of the unaudited annual report and accounts by those charged with governance (Advisory Audit Board)	early July 2023 (tbc)
Latest date for final clearance meeting with the Head of Corporate Services	6 September 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	w/c 2 October 2023
Agreement of audited and unsigned annual report and accounts	16 or 23 October 2023 (tbc)
Issue of Annual Audit Report to those charged with governance.	9 or 16 October 2023 (tbc)
Signed Independent Auditor's Report	16 or 23 October 2023 (tbc)

Source: Audit Scotland

Audit fee

38. In determining the audit fee, we have taken account of the risk exposure of the Ethical Standards Commissioner and the planned management assurances in place. The proposed audit fee for 2022/23 is £17,820 (2021/22 £15,784).

39. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

40. In setting the fee for 2022/23 we have assumed that the Ethical Standards Commissioner has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

41. It is the responsibility of the Ethical Standards Commissioner to establish adequate internal audit arrangements.

42. We intend to draw general assurance from internal audit when assessing the Commissioner's governance arrangements and our wider scope responsibilities. We will review the internal audit plan and the results of internal audit's work.

43. We are not currently planning to use the work of internal audit to provide assurance for our audit procedures on the financial statements.

Independence and objectivity

44. Auditors appointed by the Auditor General for Scotland 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.

45. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

46. The appointed auditor for the Commissioner for Ethical Standards in Public Life in Scotland is Anne MacDonald, Senior Audit Manager. 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 Ethical Standards Commissioner.

Audit Quality

47. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

48. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

49. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December

2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

50. Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

51. 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.

Appendix 1. Your audit team

52. The audit team involved in the audit of the Ethical Standards Commissioner have significant experience in public sector audit.

Name	Position
Anne MacDonald amacdonald@audit-scotland.gov.uk	Senior Audit Manager/Engagement Lead
Colin Morrison cmorrison@audit-scotland.gov.uk	Senior Auditor
Ethel Gako egako@audit-scotland.gov.uk	Auditor

53. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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