

Standards Commission for Scotland

Annual report on the 2011/12 audit



Prepared for Standards Commission for Scotland and the Auditor General for Scotland
January 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages	4
2011/12	4
Introduction	5
Financial statements	6
Audit opinions	6
Accounting issues	6
Financial results	7
Outlook	7
Governance and accountability	8
Corporate governance	8
Prevention and detection of fraud and irregularities	9
Standards of conduct and arrangements for the prevention/ detection of bribery and corruption	9
Appendix A: audit reports	11

Key messages

2011/12

The Standards Commission for Scotland (the Commission) was appointed by Scottish Ministers on 27 January 2002 in terms of the Ethical Standards in Public Life etc. (Scotland) Act 2000. 2011/12 is the first year the Commission has been required to produce audited accounts. Previously expenditure was met from the programmed budget of the Scottish Government's Finance and Central services Department.

We audited the financial statements and we also reviewed the use of resources and aspects of governance. This report sets out our key findings.

Financial statements

We have given an unqualified audit opinion on the financial statements for 2011/12. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

The Scottish Parliament awarded the Commission a budget of £252,000 for the financial year 2011/12. During the year, the Commission drew down £251,000 which was £1,000 less than the budget.

Expenditure on operating activities for 2011/12 totalled £251,000; £192,000 was spent on staff costs and £56,000 on other administrative costs. The remaining expenditure of £3,000 was on depreciation costs.

The Statement of Financial Position shows a net assets position of £6,000 at 31st March 2012 mostly represented by a surplus of current assets over current liabilities.

Governance and accountability

In 2011/12 the Commission had effective corporate governance structures in place. We were able to place reliance on the Commission's key financial system following our review of the work performed by Internal audit on evaluating the key controls.

Outlook

Over the three year period between 2010/11 and 2013/14 the Commission is committed to continuing to comply with the duty to ensure that its resources are used economically, efficiently and effectively and to reducing budgeted expenditure where possible. The current environment of reducing resources and increasing expectations is one in which the organisation's governance and accountability arrangements will be tested. Sound financial planning and monitoring arrangements will be key to delivering balanced budgets.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Commission. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. This report is addressed to the Standards Commission for Scotland and the Auditor General and should form a key part of discussions with the Accounting and Audit Committee (AAC), as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
3. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

4. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
5. We are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
6. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, governance statement and the remuneration report. This section summarises the results of our audit on the financial statements.

Audit opinions

7. We have given an unqualified opinion that the financial statements of the Commission for 2011/12 give a true and fair view of the state of the body's affairs and its net operating cost for the year.
8. The Commission is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary was consistent with the financial statements.
9. We also reviewed the governance statement and concluded that it complied with Scottish Government guidance.

Regularity

10. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance, (the Scottish Parliamentary Commissions and Commissioners etc. Act 2010).

Accounting issues

Accounts submission

11. The financial statements were submitted for audit on 2nd July, in line with a pre-agreed timetable and audit fieldwork was completed on 18th September. Matters arising were

discussed on a regular basis with the Financial Accountant. Our ISA 260 report was circulated to members of the AAC on 18th September, and revised financial statements were signed by the Accountable Officer on the 25th September 2012.

Financial results

Annual outturn

12. The Scottish Parliament awarded the Commission a budget of £252,000 for the financial year 2011/12. During the year, the Commission drew down £251,000 which was £1,000 less than the budget.
13. Expenditure on operating activities for 2011/12 totalled £251,000; £192,000 was spent on staff costs and £56,000 on other administrative costs. The remaining expenditure of £3,000 was on depreciation costs.
14. The Statement of Financial Position shows a net assets position of £6,000 at 31st March 2012 mostly represented by a surplus of current assets over current liabilities.

Outlook

15. The economic recession has resulted in significant cuts in public sector funding. The Commission is committed to continuing to comply with the duty to ensure that its resources are used economically, efficiently and effectively and to reducing budgeted expenditure where possible.
16. We will monitor progress against these commitments as part of our annual audit on an ongoing basis.

Governance and accountability

17. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
18. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
19. Consistent with the wider scope of public audit, we have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
20. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

21. We found that overall, corporate governance arrangements operated effectively during 2011/12.
22. We attended a meeting of the AAC during 2011/12. We observed that the AAC operates well and makes an effective contribution to the organisation's overall governance.

Internal control

23. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of internal audit.
24. Overall the systems of internal control were operating effectively during 2011/12. No material weaknesses in the financial accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.
25. We were able to place reliance on the Commission's key financial system following our review of the work performed by Internal audit on evaluating the key controls.

Internal audit

26. Audit Scotland's Code of Audit Practice (the "Code") sets out the wider dimension of public sector audit. The code requires external auditors to undertake an annual assessment of the adequacy of the internal audit function. Based on this assessment we outline areas where we plan to place formal reliance on areas of internal audit work in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit).
27. We concluded our assessment of the internal audit function which is provided by the Scottish Parliamentary Corporate Body's (SPCB) Internal Audit Unit in August 2012. The assessment included a review of the range and quality of work carried out by internal audit.
28. Our overall conclusion is that the Internal Audit Function (IAF) provided by SPCB complies with Government Internal Audit Standards (GIAS) in adopting a risk based audit approach in planning and undertaking their work. As a result we are able to place reliance on the work of the IAF for the purposes of our audit.

Risk Management

29. Risk management is a central part of sound governance and good management. Good risk management should provide increased confidence in the Commission's ability to:
 - achieve its objectives
 - exercise control over the threats facing the day to day activities
 - enable better take up of any opportunities available to it as an organisation.
30. During 2011/12, we found that risk assessment is fully embedded into the business planning and financial reporting processes of the organisation.
31. There is a risk register in place which is reviewed on a quarterly basis by the AAC.

Prevention and detection of fraud and irregularities

32. The Commission is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.
33. We found that the Commission has an anti fraud policy included within its Financial and Procurement Procedures document. The overall policy was reviewed and approved by the Accounting and Audit Committee in April 2012.
34. There is no history of fraud or irregularity within the Commission.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

35. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place.

36. We found that there were procedures in place to help ensure appropriate standards of conduct and to help prevent and detect bribery and corruption.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
Annual Audit Plan	10 May 2012	10 May 2012
Report on financial statements to those charged with governance	18 September 2012	18 September 2012
Audit opinion on the 2011/12 financial statements	18 September 2012	18 September 2012