



**The Standards  
Commission for  
Scotland**

Annual audit report 2014/15

Prepared for the Standards Commission and the  
Auditor General for Scotland

July 2015

# Contents

Key Messages .....	2
Introduction .....	4
Audit of the 2014/15 financial statements.....	5
Financial management and sustainability.....	9
Governance and transparency .....	12
Best Value .....	15
Appendix I – Significant audit risks.....	16
Appendix II – Summary of local and national audit reports 2014/15 .....	17

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This report has been prepared for the use of the Standards Commission and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Audit and Risk Committee. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

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# Key Messages

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 Audit of financial statements	Unqualified independent auditor's report on the 2014/15 financial statements.
 Financial management and sustainability	<p>The accounts are prepared on an accruals basis however, management also closely monitor financial performance on a cash basis.</p> <p>The financial outturn for the year is within the resource budget allocated by Scottish Ministers. e.g. that the cash drawn down for the year is within the allocated budget (£226,000). In 2014/15 the Standards Commission recorded cash expenditure of £216,000. Cash drawn down from the SPCB totalled £216,000, which was in line with the cash expenditure.</p> <p>We confirm the financial sustainability of the Standards Commission on the basis of confirmation received from the SPCB that they will fund liabilities as they arise.</p>
 Governance and transparency	<p>Overall we found that the Standards Commission had sound governance arrangements.</p> <p>Systems of internal control operated effectively during 2014/15.</p>

## Key Messages



### Outlook

The budget funding for 2015/16 of £232,000 is a 2.5% increase in the cash target from 2014/15, which was determined on the basis of operational activities identified within the 2015/16 Business Plan. It reflects increased Hearing activity. The number of Hearings held each operational year is demand driven and outwith the control of the Standards Commission, this continues to be a challenge in the management of the financial arrangements of the Standards Commission. The SPCB and the Standards Commission acknowledge that accurately determining budget requirements in this area is outwith their control.

Delivering Standards Commission business activity effectively is dependent on having sufficient staff/members.

# Introduction

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1. This report is a summary of our findings arising from the 2014/15 audit of the Standards Commission for Scotland (the Standards Commission).
2. The management of the Standards Commission is responsible for:
  - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
  - ensuring the regularity of transactions, by putting in place systems of internal control
  - maintaining proper accounting records
  - preparing and publishing with their financial statements an annual governance statement and a remuneration report.
3. Our responsibility, as the external auditor of the Standards Commission, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at appendix II.
6. There are no high level risks, in our view, that require to be communicated from the audit in accordance with ISA 260.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Audit of the 2014/15 financial statements

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## Audit opinions

### Financial Statements

- The financial statements of the Standards Commission for 2014/15 give a true and fair view of the state of the body's affairs and of its expenditure for the year.
- We confirm that the financial statements have been properly prepared in accordance with the 2014/15 FReM and the requirements of the Ethical Standards in Public Life etc. (Scotland) Act 2000 as amended by the Scottish Parliamentary Commissions and Commissioners etc. Act 2010 and directions.

### Regularity

- In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

### Other prescribed matters

- The remuneration report to be audited has been properly prepared in accordance with the requirements of the 2014/15 FReM and the requirements of the Ethical Standards in Public Life etc. (Scotland) Act 2000 as amended by the Scottish Parliamentary Commissions and Commissioners etc. Act 2010 and directions.
- The information in the management commentary and strategic report is consistent with the financial statements.

## Audit of the 2014/15 financial statements

### Submission of financial statements for audit

9. We received the unaudited financial statements in accordance with the agreed timetable. The working papers were of a good standard and the staff provided good support to the audit team. We completed our on-site fieldwork on 23 June 2015.

### Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Risk Committee on 19 January 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified one key audit risk which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.
13. Appendix I sets out the significant audit risk identified at the

planning stage and how we addressed the risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

### Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other qualitative reasons (for example an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on the financial statements, we revised our planning materiality for 2014/15 to £2,000 (1% of gross expenditure). Performance materiality of £1,800 is determined to ensure that uncorrected and undetected audit differences do not exceed our planning materiality level. We normally report

## Audit of the 2014/15 financial statements

all misstatements greater than £1,000.

### Evaluation of misstatements

18. A number of minor typographical and rounding errors that were identified during the audit have been adjusted in the financial statements. These errors were minor and were well within our materiality tolerance for the financial statements to present a true and fair view.

### Significant findings from the audit

19. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:

- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures
- Significant difficulties encountered during the audit
- Significant matters arising from the audit that were discussed, or subject to correspondence with management
- Written representations requested by the auditor
- Other matters which, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

20. A number of minor presentational and monetary rounding errors were identified within the financial statements during the course of our audit. These were discussed with relevant officers. There are no significant issues, in our view, that require to be communicated to you in accordance with ISA 260.



### Future accounting and auditing developments

#### *Revisions to the Financial Reporting Manual (FReM)*

21. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
  - Adoption of IFRS13 Fair value measurement for the first time – this also includes IAS 16 and IAS 38 adaptations
  - Simplification and Streamlining Project – changes to the form and content of the annual report and accounts.
22. **International Financial Reporting Standards (IFRS)13 Fair value measurement:** sets out the requirements for assets to be valued at fair value and is applied in full by the FReM only to assets that are not held for their service potential (i.e. investment properties and assets held for sale). It also applies to operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market.
23. This change will have limited application to the Standards Commission financial statements.
24. **Restructuring of the annual report:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:

- a performance report which will give a fair, balanced and understandable analysis of performance and will include an overview section and a performance analysis section
  - An accountability report incorporating the following three main sections:
    - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
    - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
    - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.
25. The Standards Commission will need to consider the implications for its Annual Report next year.

# Financial management and sustainability

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26. The Standards Commission was established by Scottish Ministers on 27 January 2002 in terms of the Ethical Standards in Public Life in Scotland etc. (Scotland) Act 2000 (the 2000 Act). It comprises a Convener, four Commission members and is supported by an office of three staff, led by the Executive Director to the Commission.

27. The Standards Commission's statutory functions, as provided for by the 2000 Act, are to:

- encourage high ethical standards in public life, through the promotion of an ethical standards framework and the enforcement of the Councillors' Code of Conduct and the Codes of Conduct for Members of Devolved Public Bodies.
- The Standards Commission does not conduct investigations into complaints about alleged breaches of the Codes of Conduct as this function falls within the remit of the CESPLS. The Standards Commission adjudicates on cases referred by the CESPLS where, following his investigation into a complaint, he considers that a contravention of a Code of Conduct may have occurred.
- Members of the Standards Commission consider cases referred by the CESPLS and decide to:
  - (a) direct the CESPLS to carry out further investigations;

(b) hold a hearing; or

(c) do neither.

28. The Scottish Parliamentary Commission and Commissioners etc. Act 2010 provided that with effect from 1 April 2011 the Standards Commission would be supported by the Scottish Parliamentary Corporate Body (SPCB).

## 2014/15 financial position

29. The accounts are prepared on an accruals basis however, management also closely monitor financial performance on a cash basis.

30. At 31 March 2015 the Standards Commission's statement of financial position shows a decrease in total negative equity of (£1,000).

31. The financial outturn for the year is within the resource budget allocated by Scottish Ministers. e.g. that the cash drawn down for the year is within the allocated budget (£226,000). In 2014/15 the Standards Commission recorded cash expenditure of £216,000. Cash drawn down from the SPCB totalled £216,000 which was in line with the cash expenditure.

32. A net liabilities position of £12,000 was recorded in 2014/15 compared to a net liabilities position of £13,000 in 2013/14.

## Financial position

This negative equity situation continues to occur as a result of the requirement to account for activities on an accruals basis, whilst recording funding from the SPCB on a cash basis.

## Financial management

33. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the Business Manager has sufficient status to be able to deliver good financial management;
  - standing financial instructions and standing orders are comprehensive, current and promoted within the body;
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders;
  - monitoring reports do not just contain financial data but are linked to information about performance;
  - members provide a good level of challenge and question budget holders on significant variances.
34. Based on our accumulated knowledge, our review of relevant papers, we conclude that the Standards Commission has appropriate financial management arrangements in place.

## Budgetary Control

35. Overall, budgetary control is satisfactory; the Standards Commission undertakes budget monitoring on a cash basis to monitor expenditure against the cash budget allocated by the SPCB. This takes into account that although goods and services may be consumed within one financial year, the costs will only be counted when the invoice is actually paid – which may be in the following financial year. At the financial year end the Standards Commission prepares Financial Statements on an accruals basis This is to meet the requirements stated in the Direction by Scottish Ministers that the statement of accounts is prepared to comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual which is in force for the year for which the statement of accounts are prepared.

## Quality of Information

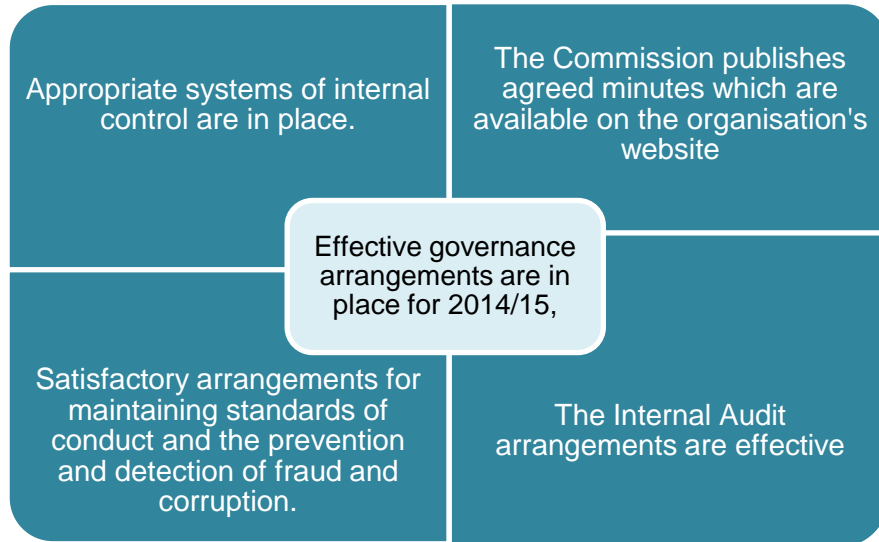
36. Overall the information supporting the financial statements has been of a good quality and we appreciate the assistance provided by the accountant from SPCB.

## Financial position

### Outlook

37. The budget funding for 2015/16 of £232,000 is a 2.5% increase in the cash target from 2014/15, which was determined on the basis of operational activities identified within the 2015/16 Business Plan. The number of Hearings held each operational year is demand driven and outwith the control of the Standards Commission, this continues to be a challenge in the management of the financial arrangements of the Standards Commission. The SPCB and the Standards Commission acknowledge that accurately determining budget requirements in this area is outwith their control. Delivering Standards Commission business activity effectively is dependent on having sufficient staff/members.

# Governance and transparency



## Corporate governance

38. The Standards Commission, through its Accountable Officer, is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the Standards Commission and for monitoring the adequacy of these arrangements.
39. The Executive Director is accountable for the finances of the Standards Commission to the Scottish Parliament and is the designated Accountable Officer. During 2014/15 the post of Accountable Officer was held by Lindsey McNeill, Ian Gordon and Lorna Johnston.

40. The Standards Commission is governed by a Convener and four Commission Members, who are all appointed on a part time basis. They meet monthly to discuss and agree on strategic Commission matters and to consider Breach reports. The Commission Members also consider recommendations from the Human Resources Committee and the Audit and Risk Committee.

## Transparency

41. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>), for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:
  - Holding an annual open meeting
  - Holding board meetings in public unless there is a good reason not to
  - Publishing summary reports and/or minutes of meetings
  - Inviting evidence from members of the public in relation to matters of public concern
  - Consulting stakeholders and users on a wide range of

## Governance and transparency

issues

- Making corporate plans and the annual report widely available.

42. Whilst the Standards Commission for Scotland is a body corporate it seeks to apply the principles detailed within On Board to its operating procedures where this is practicable and reasonable. Whilst the Standards Commission and its Committee meetings are held in private the minutes from the meetings of the Standards Commission are available on the Standards Commission website. The Standards Commission holds its Hearings in public and in the locality of the Council or Public Body where the Respondent is based. The outcome of each Hearing is subject to a press release and is posted on the Standards Commission's website.
43. Overall we concluded that the Standards Commission is open and transparent as far as confidential considerations allow. The Standards Commission and Audit and Risk Committee are held in private because of the confidential and sensitive nature of their business. The Standards Commission should keep their openness and transparency in decision making under review.

## Internal control

44. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole.
45. No material weaknesses in the accounting and internal control systems were identified during the 2014/15 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 financial statements.

## Internal audit

46. Internal audit provides the Audit and Risk Committee and accountable officer with independent assurance on the overall risk management, internal control and corporate governance processes.
47. Internal audit is part of the Standards Commission's governance structure, and the Standards Commission makes arrangements for the internal audit of systems annually, setting out priority areas based on assessment of risk and assurances required.

## Arrangements for the prevention and detection of fraud

48. 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.
49. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent

## **Governance and transparency**

and detect fraud and other irregularities. In our opinion the Standards Commission's overall arrangements for the prevention of fraud, irregularity and corruption are satisfactory, although it should be noted that no system can eliminate the risk of fraud, irregularity or corruption entirely.

## Best Value

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- 50. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
- 51. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction, with Standards Commission agree to undertake local work in this area.
- 52. We did not undertake any specific work in this area during 2014/15.

### National performance audit reports

- 53. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest. These are outlined in appendix II.
- 54. **Scotland's public finances - a follow-up audit: Progress in meeting the challenges.** This report was published in June 2014 and commented that, in setting budgets, public bodies

need to focus more on their priorities, making clearer connections between planned spending and the delivery and measurement of outcomes.

- 55. **Update on developing financial reporting:** This update report published in March 2015 reviewed the principles of public financial management and provided an update on the actions the Scottish Government is taking to further develop financial reporting.
- 56. The report concludes that the Scottish Government and the public sector generally, have a good record of financial management and reporting. The Scottish Government has continued to improve and develop its financial reporting framework since we last reported. The report highlights that consolidated accounts for the whole of the Scottish public sector would help provide an overall picture of its financial position to strengthen understanding and transparency.



# Appendix I – Significant audit risks

The table below sets out the audit risk, how we addressed the risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Financial audit issues</b>		
<p><b>Financial management:</b> The budget issued for 2014/15 was determined on the basis of operational activities identified within the 2014/15 Business Plan and includes estimated provisions to hold five Hearings. The SPCB and the Standards Commission acknowledge that accurately determining budget requirements in this area is outwith their control. The cash allocation for 2014/15 is 5.2% lower than for 2013/14 and sound financial planning and monitoring arrangements will be key to delivering expenditure within a balanced budget.</p>	<p>We monitored the financial outturn against budget throughout the year.</p>	<p>We reviewed the financial outturn against the cash budget and the Standards Commission were £10,000 underspent. The departure of the Executive Director in July 2015 resulted in an overall underspend in staffing costs as the Commission operated with 1 less member of its senior staff for 5 months until the appointment of the new Executive Director on 1 December 2015. However, increased Hearing related activities during 2014/15 resulted in an overspend against other budget areas. The net impact of the underspend in Staffing Costs and the overspend incurred in Hearing related activities reduced the overall underspend against budget to £10,000. We will continue to monitor the financial outturn against budget in future years given the increased challenges to the Standards Commission financial environment.</p>

# Appendix II – Summary of local and national audit reports 2014/15

