

# Scottish Parliamentary Corporate Body

2016/17 Annual Audit Report



 AUDIT SCOTLAND

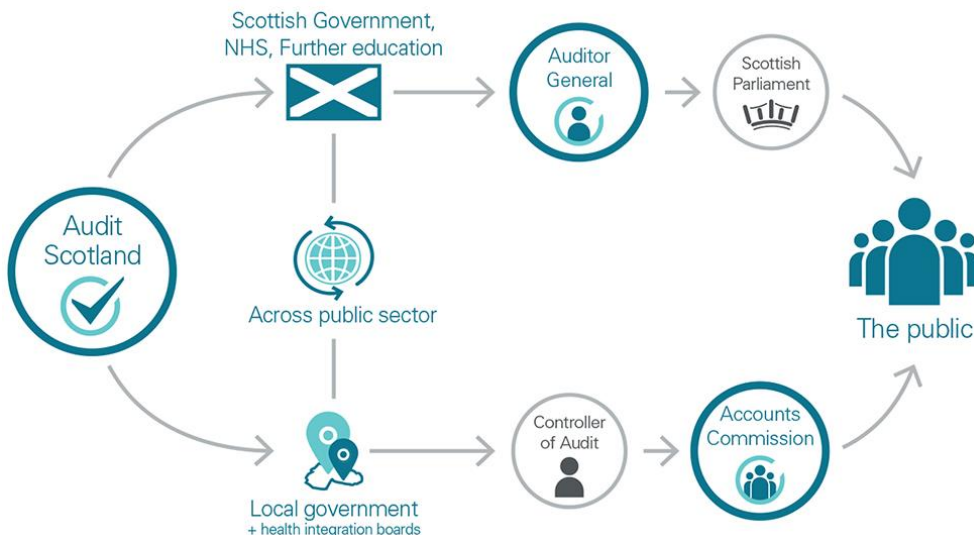
Prepared for Scottish Parliamentary Corporate Body and the Auditor General for Scotland

September 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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# Key messages

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## Audit of the 2016/17 financial statements

- 1 The financial statements of the Scottish Parliamentary Corporate Body (SPCB) for 2016/17 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.
- 2 The Auditor General for Scotland has issued an unqualified Independent Auditor's Report on the SPCB Annual Report and Accounts for 2016/17.
- 3 There are no uncorrected errors in the Annual Report and Accounts. Management made adjustments for all accounting errors identified during the audit. The overall impact of the corrections made was to increase general reserves by £0.046m.

## Financial management

- 4 We concluded that SPCB had effective overall management of the 2016/17 budget.
- 5 Systems of internal control operated effectively in 2016/17.
- 6 Arrangements for investigating NFI matches are effective.

## Financial sustainability

- 7 There are no concerns about the overall financial position of SPCB.
- 8 SPCB has been proactive in assessing the impact of the new financial powers and Brexit on its work and resource capacity.
- 9 SPCB has robust short term financial planning and adequate medium and long term financial planning arrangements in place.
- 10 The members' pension scheme liability has increased considerably over the year and this has had the greatest impact on the Statement of Financial Position.

## Governance and transparency

- 11 The SPCB has sound governance arrangements in place. Recent delays in securing the full complement of independent members on the Advisory Audit Board (AAB) could reduce its effectiveness.
- 12 Internal audit function has sound documentation standards and reporting procedures in place.
- 13 SPCB is open and transparent. There is scope for further opportunities to enhance its transparency in certain areas of its business.
- 14 There is a lack of detailed disclosure of the value of members' expenses/operating costs in the financial statements. More details of the main categories of this expenditure would improve its transparency to the reader of the annual report and accounts.

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# Introduction

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1. This report is a summary of our findings arising from the 2016/17 audit of Scottish Parliamentary Corporate Body (SPCB).
2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Advisory Audit Board. This report comprises:
  - an audit of the annual report and accounts
  - consideration of the wider dimensions set out in the [Code of Audit Practice 2016](#): appropriateness, effectiveness and impact of corporate governance, financial management and financial sustainability.
3. The main elements of our audit work in 2016/17 have been:
  - an interim audit of the SPCB's main financial systems and governance arrangements
  - an audit of the SPCB's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions
  - review of National Fraud Initiative arrangements.
4. SPCB is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and accounts, and for establishing effective arrangements for governance, propriety and regularity that enable the SPCB to successfully deliver its objectives.
5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance and, guided by the auditing profession's ethical guidance.
6. These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the performance report and the governance statement. In doing this, we aim to support improvement and accountability.
7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
8. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1 \(page 20\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
9. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

**10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

**11.** This report is addressed to both the SPCB and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2016/17 financial statements



### Main judgements

**The financial statements of the Scottish Parliamentary Corporate Body for 2016/17 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.**

**The Auditor General for Scotland has issued an unqualified Independent Auditor's Report on the SPCB Annual Report and Accounts for 2016/17.**

**There are no uncorrected errors in the Annual Report and Accounts. Management made adjustments for all accounting errors. The overall impact of the corrections made was to increase general reserves by £0.046m.**

### Unqualified audit opinions

**13.** The annual report and accounts for the year ended 31 March 2017 were approved by the SPCB on 21/09/2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity of expenditure and income; and
- an unqualified audit opinion on the remuneration and staff report, performance report and governance statement.

**14.** Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

### Submission of annual report and accounts for audit

**15.** We received the unaudited financial statements on 7 July 2017, in line with our agreed audit timetable. The draft accounts were of a good standard.

**16.** The working papers provided with the unaudited financial statements were of a good standard and finance staff provided excellent support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Risk of material misstatement

**17.** [Appendix 2 \(page 21\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. We investigated these issues during the audit and have not identified any issues that would result in changing our audit approach.

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The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

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## Materiality

**18.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**19.** Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 1](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**20.** On receipt of the annual report and accounts we reviewed our original materiality calculations and concluded that they remained appropriate.

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## Exhibit 1

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£0.963m
<b>Performance materiality</b> – 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 overall materiality.	£0.723m
<b>Reporting threshold</b> – 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 4% of overall materiality.	£0.040m

Source: Audit Scotland

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## Evaluation of misstatements

**21.** There was one material adjustment to the unaudited financial statements arising from our audit. It was in relation to the accounting treatment of chamber lighting impairment and the details are included in paragraph 23 below. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements.

**22.** It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officer and materiality levels. Management agreed to adjust all identified misstatements with the total effect of increasing the reserves by £0.046m.

## Significant findings from the audit

**23.** International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 20\)](#) has been included.



## Exhibit 2

### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Chamber lighting impairment</b></p> <p>The Parliament's chamber lighting is being replaced with new equipment. The SPCB charged £1m of additional depreciation in relation to the existing lighting in their statement of net expenditure. We established that the charge related to obsolescence of the equipment and its increased rate of failure. In such cases the accounting standards require the decrease in the value of an asset to be accounted for as impairment rather than depreciation.</p>	<p>Management agreed to make required changes to the accounts and added additional explanations in the notes.</p> <p>The asset was impaired by £1.1m, with £0.935m charged to the net operating expenditure and £0.192m of accumulated depreciation transferred from revaluation reserve to general fund.</p> <p>As a result the net operating expenditure decreased by £0.065m and net assets increased by the same amount.</p> <p>SPCB added additional explanations to the financial statements notes.</p>

Source: Financial statements audit

### Other findings

**24.** Our audit identified a number of other presentational and disclosure issues which were discussed with management. All necessary adjustments were made to the financial statements.

# Part 2

## Financial management



### Main judgements

We concluded that SPCB had effective overall management of the 2016/17 budget.

Systems of internal control operated effectively in 2016/17.

Arrangements for investigating NFI matches are effective.

### Financial performance in 2016/17

**25.** The main financial objective for SPCB is to ensure that the financial outturn for the year is within its budget. SPCB is funded directly from Scottish Consolidated Fund. As such its budget is approved by the Finance and Constitutional Committee of the Scottish Parliament and netted off against the Scottish block grant. This is then included in the annual Budget Bill figures presented by the Scottish Government.

**26.** SPCB has reported an outturn of £97.8m, remaining within its overall budget for 2016/17 and returning an underspend of £2.0m against its final budget. The financial performance against budget is shown in [Exhibit 3](#).

### Exhibit 3

Performance against budget in 2016/17

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Revenue budget	95.2	98.3	95.6	(2.7)
Capital budget	1.5	1.5	2.2	0.7
Total budget	96.7	99.8	97.8	(2.0)

Source: 2016/17 Budget submission to Finance Committee, 2016/17 Spring Budget Revision, 2016/17 Annual Report and Accounts

**27.** The reasons for the budget underspend were due to spending:

- £1.1m less on MSPs expenses given the inherent uncertainty of the results of the Scottish Parliament election in May 2016 and the resultant level of

expenditure in areas such as resettlement grants and staff redundancy costs.

- £0.8m less on depreciation and impairment costs mainly due to reduction in the value of IT assets and clarification of the accounting policies
- £0.7m less on Parliamentary Service cost relating to lower staff related costs particularly the training and travel budgets

**28.** The overspend on capital budget was caused by increased purchases of IT equipment. This was mainly (£0.7m) financed from revenue budget underspend in the Parliamentary Service Cost.

### Internal controls

**29.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that SPCB has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**30.** We concluded that the controls were operating effectively. No significant internal control weaknesses were identified during the audit which could affect SPCB's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

### Budgetary processes

**31.** We also reviewed SPCB's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at the AAB we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

**32.** We concluded that SPCB has satisfactory budgetary monitoring and control arrangements that allow both members and senior management to carry out effective scrutiny of financial performance.

### Prevention and detection of fraud and irregularity

**33.** We assessed SPCB's arrangements for the prevention and detection of fraud and concluded that appropriate and adequate arrangements were in place during 2016/17.

### National Fraud Initiative

**34.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error. ([Exhibit 4](#)) is a summary of the level of matches for the SPCB.

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Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

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## Exhibit 4

Total number of matches



466

Number recommended for investigation



46

Completed/closed investigations



462

Source: <https://www.nfi.gov.uk>

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**35.** NFI work is tracked by way of a secured national website. The majority of the work to investigate matches was carried out off-line by officials. At the time of finalising this report, all except 4 matches had been recorded on the NFI website as investigated and complete and there were no issues identified. Effective arrangements are in place to investigate matches.

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

**36.** We have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Code of Conduct for Members. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

**37.** Based on our review of the evidence we concluded that SPCB has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

# Part 3

## Financial sustainability



### Main judgements

**There are no concerns about the overall financial position of SPCB.**

**SPCB has been proactive in assessing the impact of the new financial powers and Brexit on its work and resource capacity.**

**SPCB has robust short term financial planning and adequate medium to long term financial planning arrangements in place.**

**The members' pension scheme liability has increased considerably over the year and this has had the greatest impact on the Statement of Financial Position.**

### Short term financial planning

**38.** The Finance and Constitution Committee approved SPCB's 2017/18 budget in December 2016 with a resource allocation of £97.6m which is £0.9m (1%) more than the initial 2016/17 budget allocation.

**39.** The 2017/18 budget shows an increase in staff and related cost of £1.7m (7%) attributed mainly to 28 additional FTE posts. The increase in staffing is due to IT/Digital needs and projects and the new powers devolved to the Scottish Parliament. £97.6m included allocations for Commissioners/Ombudsman that increased £1.3m (15%) mainly due to new statutory functions of Scottish Public Services Ombudsman.

**40.** MSPs budgeted salaries increased by £0.3m (3%) and their expenses by £0.2m (1%). The salary increase is a result of Annual Survey Hours and Earnings index increase of just under 2% and 1% resulting from the impact of employers national insurance rates changes.

**41.** The budget shows a £3m (75%) decrease in contingency line to £1m in 2017/18. The previous year's increased level of contingency budget was due to the May 2016 Election and the payment of resettlement grants to former MSPs and redundancy payments to their staff.

### 2016/17 financial position

**42.** The Statement of Financial Position (previously known as the balance sheet) summarises what is owned and owed by SPCB. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

**43.** The financial statements show that SPCB has net assets of £272.5m which is a net decrease of £8.7m (3%) from 2015/16. Significant variances between the years

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

include the increased pension liability and an increase in the net book value of the Parliament Building.

**44.** MSPs are members of the Scottish Parliamentary Pension Fund. The valuation of pension fund assets and liabilities is assessed by the Government Actuary Department. Valuations are based on a number of variables, including projected rates of return on assets, projected rates of price and pay inflation, interest rates and mortality estimates.

**45.** The Government Actuary undertakes a full actuarial valuation of the Fund's assets and liabilities every three years. The last full valuation covered the period 1 April 2011 to 31 March 2014. The 2016/17 assessment has been carried out by calculating the liability as at 31 March 2014 based on the data for the 2014 actuarial valuation and rolling forward that liability to 31 March 2017. The next full triennial valuation of the fund at 31 March 2017 is expected to be published in 2017/18 financial year.

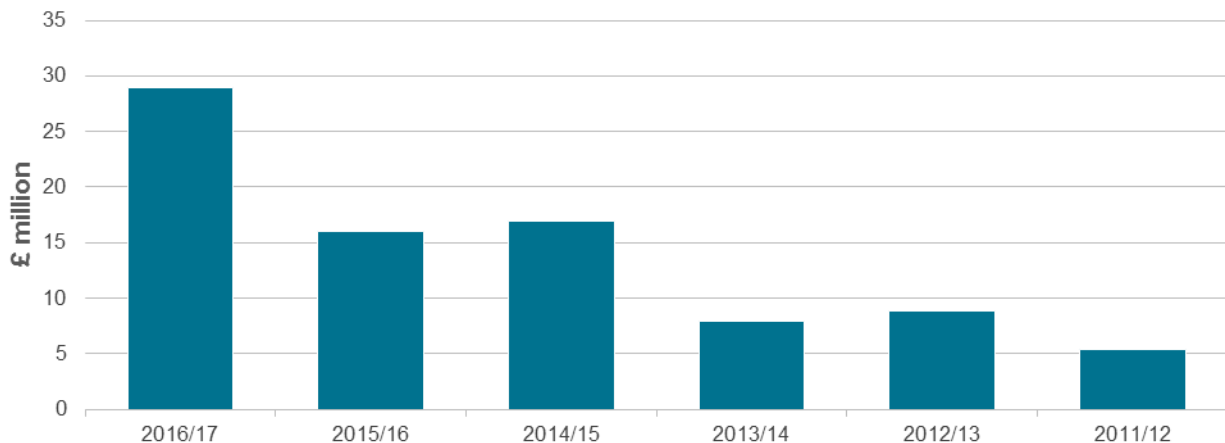
**46.** The pension liability at 31 March 2017 was £28.9m and represents 79% of total liabilities of the SPCB at the year end (£15.9m and 65% in 2015/16 respectively).

**47.** The pension liability shows the difference between the expected future pension payments to pensioners and the underlying value of pension fund assets available to meet this cost.

**48.** The movement in pension liability over last six years is shown in [Exhibit 5](#).

## Exhibit 5

### MSPs Pension liability movement



Source: SPCB annual accounts 2011/12 - 2016/17

**49.** Movements in the value of the discount factor used by the actuary to estimate the current value of future pensions, can have a significant impact on the value of the pension liability. The discount factor has decreased from 3.55% at March 2016 to 2.65% at March 2017. As a lower discount rate results in a higher value of pension liabilities, the decreased rate at March 2017 contributed to the increased pension liability. This increase in the liability could have the potential of increasing the future level of employer's pension contributions.

**50.** SPCB's employees are members of the Principal civil service pension scheme (PCSPS). It is accounted for on a defined contribution basis and therefore does not create liability in SPCB's accounts.

## Medium to long term financial planning

**51.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term. In their indicative 2018/19 budget forecast included as part of the 2017-18 budget submission the SPCB assumed £2.1m (2.5%) increase in revenue expenditure and a £0.025m (2.5%) increase in the capital budget of £1m.

**52.** SPCB also have medium to long term planning in place. This is particularly important in this coming period of increased new powers and Brexit related activity. In line with good practice SPCB have prepared budget estimates covering the period to the financial year 2020/21. These estimates reflect the expected impact on workloads of Brexit and future funding requirements.

## New powers and SPCB's resource capacity

**53.** In March 2016 new fiscal and social security powers on finance were devolved to the Scottish Parliament under both the Scotland Act 2012 and the Scotland Act 2016. In response SPCB established a Constitutional Issues Board (CIB) to analyse the impact and different scenarios for the new powers and likely demands due to the UK's decision to leave the European Union.

**54.** The CIB agreed that its work should be taken forward under the following four strands: EU referendum, new powers, external factors and parliamentary reform. The CIB established a timeline for its work up to 2022 and performed a capacity planning exercise in June 2017.

**55.** The capacity planning exercise was undertaken to inform the future deployment of resources across the Scottish Parliament and covered the period to April 2019. This involved seeking the Committees' and service heads' feedback on the anticipated increases in their workload.

**56.** The feedback identified a number of possibilities that can be split into two main strands: improving the processes in place and increasing the staff complement. Proposals included work re-prioritisation, reducing engagement work, increased use of external advisers, adapting work practices, reviewing committees' structures and size, reducing bureaucracy or using temporary staff.

**57.** Additional funding of £0.5m was used in 2016/17 to finance a number of new posts in different departments of the Parliament. A proposed additional resource requirement for 2017/18 and 2018/19 was presented to CIB to inform SPCB consideration of its 2018/19 budget bid. This does not take into account the potential implications of the Commission on Parliamentary Reform report's recommendations that are mostly due to be considered by June 2019. Any additional resource on that stream of work will depend on how the recommendations are implemented.

**58.** We note that capacity issues could put additional strain on SPCB resources and that this has been identified as one of the high level risks in the Corporate Risk Register. This has been subject to proactive Constitutional Issues Board work. We will continue to monitor the process and financial impact on SPCB.

# Part 4

## Governance and transparency



### Main judgements

SPCB has sound governance arrangements in place. Recent delays in securing the full complement of independent members on the AAB could reduce its capacity to support the Principal Accountable Officer on finance, audit, governance and risk matters.

Internal audit function has sound documentation standards and reporting procedures in place.

SPCB is open and transparent. There is some scope for further opportunities to enhance its transparency.

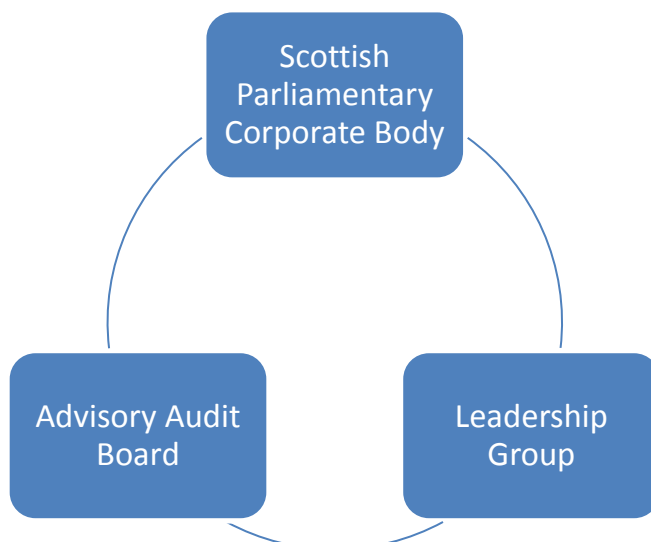
There is a lack of detailed disclosure of the value of members' expenses/operating costs in the financial statements. More details of the main categories of this expenditure would improve its transparency to the reader of the accounts.

### Governance arrangements

59. The SPCB was established in May 1999 under The Scotland Act 1998. Its governance structure is shown in [Exhibit 6](#).

### Exhibit 6

#### SPCB governance structure



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.



**60.** The SPCB comprises the Presiding Officer, and five other members of the Scottish Parliament elected by the Parliament. Its tasks are to ensure that the Parliament is provided, with the property, staff and services required for the Parliament's purposes.

**61.** The Leadership Group (LG) is the SPCB's key management forum. The SPCB is responsible for setting the overall strategic direction and the Leadership Group is responsible for ensuring that the aims and objectives set by the members of the Corporate Body are achieved. The role of the LG includes monitoring performance against agreed objectives and ensuring that the statutory requirements for the use of public funds are complied with. The Leadership Group is supported in its work by a number of advisory boards.

**62.** The Advisory Audit Board (AAB) considers all matters of governance, audit, internal control, the assessment and management of risk, the planned activity of internal and external audit and the results of their work.

**63.** Until May 2017, the AAB consisted of two members of the SPCB plus three independent members in accordance with its terms of reference. Since June 2017, following the end of the terms of appointment for two independent members, the AAB has consisted of two members of the SPCB and one independent member (Chair). A former AAB Chair, was co-opted in July 2017 on interim basis, while recruitment to replace the independent members on a longer term basis is on-going. Interviews are planned for October/November 2017.

**64.** While the current composition of the AAB meets its quorate requirements, we would like to highlight the importance of having a sufficient number of members from outside of the SPCB to support the Principal Accountable Officer's assurance requirements. There is a risk that the AAB's ability to effectively advise the Principal Accountable Officer is reduced while it operates without the full complement of independent members.

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## Recommendation 1

**The SPCB should conclude its recruitment of independent AAB members in early course to ensure that it can effectively support the Principal Accountable Officer's assurance requirements.**

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**65.** As part of our 2016/17 audit work we undertook a review of governance arrangements. Apart from the issue mentioned above, we concluded that SPCB has appropriate overarching and supporting governance arrangements which provide an effective framework for organisational decision making.

## The Annual Governance Statement

**66.** Under the Treasury's Financial Reporting Manual (FRoM), SPCB must prepare an annual governance statement within the Annual Report and Accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

**67.** The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

**68.** We concluded that the 2016/17 annual governance statement complies with the guidance issued by the Scottish Ministers and based on our knowledge and work performed, presents a comprehensive picture of governance arrangements.

## Internal audit

**69.** Internal Audit (IA) provides the Advisory Audit Board and the Principal Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes.

**70.** The SPCB's Internal Audit service is led by the Head of Internal Audit who works directly for the SPCB. He is supported by an external provider (Grant Thornton) who was appointed following open competition in June 2016 for an initial period of three years. The contract could be further optionally extended for 24 months.

**71.** The Head of Internal Audit concluded in his 2016/17 annual report that substantial assurance can be taken from the areas reviewed in year, subject to the implementation of agreed actions. Thirteen of the fourteen planned internal audit reviews were completed in year. The review of Business Continuity Management has been carried forward to the 2017/18 Internal Audit Plan with the AAB's approval.

**72.** We are required by International Auditing Standard 610 (Using the Work of Internal Auditors) to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

**73.** As part of our risk assessment and planning process we assessed the SPCB's Internal Audit function and concluded that it has sound documentation standards and reporting procedures in place. This has enabled us to place reliance on the work of internal audit in terms of MSPs expenses and our wider code responsibilities. We reported this to the Principal Accountable Officer in April 2017 and the Advisory Audit Board in June 2017.

## ICT risks

**74.** As part of our audit work we reviewed the IT Strategy and did not identify any significant issues. Internal Audit also carried out work on:

- Business Continuity arrangements and concluded these were robust. IA identified 3 moderate risks and all of the recommended actions were completed by SPCB in 2016
- Cyber Security Maturity levels and concluded that significant assurance was achieved. IA reported four moderate and two low risk areas for improvement and all recommendations were implemented.

**75.** In August 2017 the Scottish Parliament was subject to an external cyber attack similar to that which affected Westminster earlier in June. Management confirmed that the Parliament's monitoring systems identified it early and that the IT systems remained operational.

## Risk management

**76.** As part of the audit we reviewed risk management processes and the Corporate Risk Register. We concluded that risk management arrangements in place were satisfactory.

**77.** Members of the Leadership Group assess risks on a quarterly basis and identify new and/or escalating risks. The risk register has detail on the controls and actions in place to mitigate risks. An Assistant Chief Executive takes the lead on the register supported by senior staff, and LG retain overall responsibility for the effective management of risk. The strategic risk register reflects levels of risk tolerance and the residual risk scores. This should allow SPCB to capture the risk appetite of the organisation to allow risk to be more effectively managed.

**78.** During the year, the SPCB considered in detail several of the higher priority risks on the strategic risk register relating to capacity issues relating to the new powers work, use of parliamentary resources and engaging with the public and other stakeholders. Updates were given on mitigating arrangements.

## Transparency

**79.** As set out in our 2016/17 Annual Audit Plan our approach is based on audit dimensions as defined by the Code of Audit Practice. These dimensions frame the wider scope of public sector audit and include consideration of financial sustainability, financial management and governance and transparency. All appointed auditors must consider these audit dimensions when performing and reporting their work.

**80.** Transparency means that the public have access to understandable, relevant and timely information about how the SPCB is taking decisions and how it is using resources.

**81.** The SPCB demonstrate a number of characteristics of openness and transparency including

- making SPCB and LG papers and minutes available for review on its website
- making information on its performance available to the public
- including useful guidance on how to access information about the Parliament's activities on its website
- including details of the Parliament's members and copy of their register of interest on its website.
- the financial statements including reconciliations between expenditure and the outturn against the budget approved by the Scottish Parliament. More detailed analysis is contained within the monthly Chief Executive's Reports which are presented to SPCB meetings

**82.** Overall, we concluded that the SPCB conducts its business in an open and transparent manner.

**83.** However, all SPCB and AAB meetings are held in private and the AAB minutes are not available on the website. Therefore there is a scope for the SPCB to consider opportunities to further enhance transparency.

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## Recommendation 2

**With increasing expectations for enhanced openness in the conduct of public business, the SPCB should consider whether there are opportunities to further enhance its transparency.**

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**84.** A number of meeting papers are not available online as they contain information considered exempt under the Freedom of Information (Scotland) Act 2002.

**85.** The value of members' expenses/operating cost is presented in the notes to the accounts as one line of £15.3m. More detailed information is available from the SPCB's website both quarterly and annually.

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### Recommendation 3

**We would encourage more details of the main categories of members' expenses/operating costs to be included in the financial statements in order to enhance the transparency of expenditure to the reader of the annual report and accounts.**

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### National audit reports

**86.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which might be of direct interest to SPCB. These are outlined in [Appendix 3](#) accompanying this report.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
17	<p><b>1. AAB membership</b></p> <p>While the current composition of AAB meets its quorate requirements, there have been delays in recruiting two new independent members.</p> <p><b>Risk</b></p> <p>There is a risk that the effectiveness of the AAB's support to the Principal Accountable Officer is reduced.</p>	<p>The SPCB looks to conclude its recruitment of independent AAB members in early course to ensure that it can effectively support the Principal Accountable Officer's assurance requirements.</p>	<p>We greatly value the expertise provided by independent AAB members and we have co-opted an experienced finance and accounting professional on an interim basis to support and advise the AAB whilst we recruit for the longer term.</p> <p>We have advertised these posts publicly and widely and we anticipate holding further interviews in October/November 2017.</p> <p>Paul Grice Clerk/Chief Executive</p>
19	<p><b>2. Transparency</b></p> <p>We note that all SPCB and AAB meetings are held in private and the Advisory Audit Board minutes are not available on the website.</p> <p>With increasing expectations for enhanced openness in the conduct of public business SPCB should consider opportunities to further enhance its transparency.</p> <p><b>Risk</b></p> <p>SPCB are not fulfilling the potential for maximising the transparency of its business.</p>	<p>With increasing expectations for enhanced openness in the conduct of public business, the SPCB should consider whether there are opportunities to further enhance its transparency.</p>	<p>We routinely review how we conduct business and where there might be scope to enhance existing arrangements and will continue to do so.</p> <p>Paul Grice Clerk/Chief Executive</p>
20	<p><b>3. MSPs expenses/operating costs breakdown</b></p> <p>Only the total value of members' expenses/operating cost (£15.3m in 2016/17) is</p>	<p>We would encourage more details of the main categories of this expenditure to be included in the annual report and accounts.</p>	<p>The SPCB accepts in principle that we will revisit for next year's accounts whether some further detail might be incorporated. There is fuller, more transparent information</p>



**Page  
no.**

**Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

disclosed in the financial statements. A breakdown of the different categories of expenses is published on the SPCB's website.

**Risk**

There is a lack of detail of members' expenses/operating costs to inform a reader of the annual report and accounts.

elsewhere on the SPCB's website, including open data, and the accounts in note 5 already include a reference and link to this information which will assist any reader who wants to know more detail in this area.

Lis Craig

Financial Controller

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 MSPs expenses</b></p> <p>Expenses reimbursed to MSPs by SPCB are both material by value and by nature.</p> <p>Following the Scottish Parliament elections in May 2016, 51 MSPs (over a third) either stepped down or were not re-elected. These MSPs are entitled to receive resettlement grant and their staff to receive redundancy payments.</p> <p>SPCB anticipates that these MSPs will receive approximately £2.2m in resettlement grants and their staff £1.6m in redundancy payments.</p> <p>These payments are by their nature not routine and this is a high risk area subject to wide public scrutiny.</p>	<p>Reliance on internal audit work and re-performance of their substantive testing.</p> <p>Focused substantive testing of the resettlement grants and redundancy payments.</p>	<p>Our audit procedures have not identified any issues in this area which would impact on our financial statements approach.</p>
<p><b>2 Risk of management override of controls</b></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>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>Our audit procedures did not detect evidence of management override of controls.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>ISA 240 also requires audit</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure</p>	<p>Our audit procedures did not detect any evidence of fraud over expenditure.</p>

Audit Risk	Assurance procedure	Results and conclusions
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.	transactions.	

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#### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

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<p><b>4 New powers</b></p> <p>The Scottish Parliament's powers are changing substantially as a result of both the Scotland Act 2012 and the Scotland Act 2016. 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 will 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>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>	<p>SPCB is proactive in estimating the impact of the additional work.</p>
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# Appendix 3

## Summary of national performance reports 2016/17



Apr			
May	 Common Agricultural Policy Futures programme: an update		
Jun	 South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland	
Jul	 Audit of higher education in Scottish universities	 Supporting Scotland's economic growth	
Aug	 Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update	 Scotland's colleges 2016
Sept	 Social work in Scotland	 Scotland's new financial powers	
Oct	 Angus Council: Best Value audit report	 NHS in Scotland 2016	
Nov	 How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16	
Dec	 Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	 Scotland's NHS workforce		
Mar	 Local government in Scotland: Performance and challenges 2017	 i6: a review	 Managing new financial powers: an update

### Central Government relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[Supporting Scotland's economic growth](#) – July 2016

[Scotland's new financial powers](#) – September 2016

[Managing new financial powers: an update](#) – March 2017

# Scottish Parliamentary Corporate Body

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