

# Standards Commission for Scotland

2016/17 Annual Audit Report



 AUDIT SCOTLAND

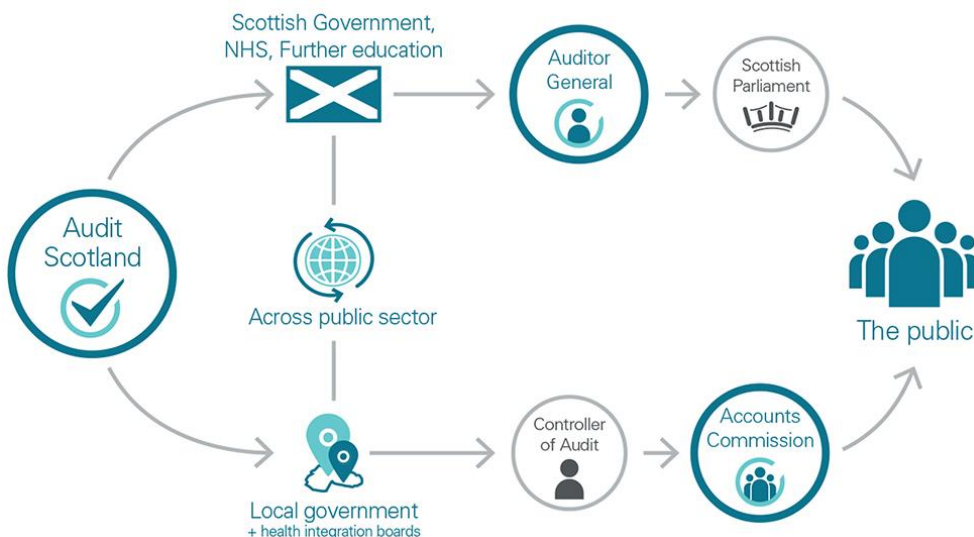
Prepared for Members and the Auditor General for Scotland

July 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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# Contents

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Key messages	4
Introduction	5
Part 1 Audit of 2016/17 financial statements	7
Part 2 Financial sustainability	9
Part 3 Governance	11
Appendix 1 Significant audit risks identified during planning	12
Appendix 2 Summary of national performance reports 2016/17	13

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# Key messages

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## Audit of the 2016/17 financial statements

- 1** The financial statements of the Standards Commission for Scotland give a true and fair view of the financial position and their expenditure and income.
- 2** The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
- 3** The other information in the annual report and accounts was consistent with the financial statements and prepared in accordance with legal requirements.

## Financial sustainability

- 4** The Standards Commission reported an underspend of £4,000 in the year. A funding budget of £259,000 has been approved by the SPCB for 2017/18.
- 5** The Standards Commission has sound financial planning arrangements in place based on its Strategic Plan.

## Governance

- 6** We concluded that the annual governance statement 2016/17 is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers

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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 the Standards Commission for Scotland ( the Standards Commission).
2. The scope of our audit was set out in our Annual Audit Plan presented to the January 2017 meeting of the Audit Committee. 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](#) as illustrated in [Exhibit 1](#)
3. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money. The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. As highlighted in our 2016/17 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2016/17 audit of the Standards Commission.
4. The main elements of our audit work in 2016/17 have been:
  - A review of the governance arrangements
  - an audit of the Standards Commission's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions
5. The Standards Commission 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 it to successfully deliver its objectives.
6. 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.
7. These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the performance report and the governance statement.
8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
9. 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.
10. 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.

**11.** 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.

**12.** This report is addressed to both the Standards Commission 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).

**13.** 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 Standards Commission 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.

We have issued an unqualified independent auditor's report on the Standards Commission's annual report and accounts for 2016/17.

### Unqualified audit opinions

14. The annual report and accounts for the year ended 31 March 2017 were approved by the Standards Commission on 31 July 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.

15. 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

16. We received the unaudited financial statements on 01 June 2017 in line with our agreed audit timetable.

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

### Risk of material misstatement

18. [Appendix 1 \(page 12\)](#) 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.

### Materiality

19. 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.

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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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**20.** 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 2](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**21.** 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 2

### 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.	£2,370
<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 90% of overall materiality.	£2,133
<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 5% of overall materiality.	£100

Source: Audit Scotland

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### Evaluation of misstatements

**22.** There were no material misstatements to the unaudited financial statements arising from our audit.

### 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. 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.

### Other findings

**24.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.



# Part 2

## Financial sustainability



### Main judgements

**The Standards Commission has sound financial planning arrangements in place based on the Strategic Plan.**

**The Standards Commission reported an underspend of £4,000 in the year. A funding budget of £259,000 has been approved by the SPCB for 2017/18.**

**The Standards Commission has sound budget monitoring arrangements in place.**

### Financial performance in 2016/17

**25.** The main financial objective for the Standards Commission is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Parliamentary Corporate Body (SPCB). The Standards Commission had an underspend of £4,000 on a budget of £240,000 in 2016/17.

### Budgetary processes

**26.** We reviewed the Standards Commission's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at Audit & Risk Committee we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

**27.** We concluded that the Standards Commission has sound budgetary monitoring and control arrangements that allow both members and officers to carry out effective scrutiny of its finances.

### 2016/17 financial position and financial sustainability

**28.** The Statement of Financial Position summarises what is owned and owed by the Standards Commission. The statement of changes in taxpayers' equity shows how the movement during the year on a body's reserve balance and how much has arisen from the application of revenues and how much through changes over time in the value of physical assets.

**29.** The Standards Commission is not funded directly by Grant in Aid but is part of the budget submissions of the SPCB to the Scottish Government. The Standards Commission receives funding through out the year on a cash basis from the overall budget of the SPCB.

**30.** The financial statements show that the Standards Commission has net liabilities of £6,000, an increase of £1,000 from 2015/16. The net liabilities position

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

is as a result of the requirement to account for activities on an accruals basis, whilst recording funding from the Scottish Government on a cash basis. The closing negative balance relates to timing differences between expenditure and funding. The financial statements adequately disclose the reasons why, despite a closing net liability position on the balance sheet, they have been prepared on a going concern basis.

### Short term financial planning

**31.** The Standards Commission submitted its 2017/18 draft budget in July 2016 with a resource allocation of £259,000 which is £19,000 (7.9%) more than the 2016/17 budget allocation (£240,000). The 2017/18 budget allocation was approved by the SPCB on 28 February 2017.

**32.** As funding from the SPCB is the Standards Commission's sole source of income there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the main focus for the Standards Commission is achieving a balanced financial plan to remain within their annual allocation.

### Medium to long term financial planning

**33.** 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.

**34.** The Standards Commission has a Strategic Plan covering the 2016-2020 which includes a high level financial plan covering the period based on the assumed level of funding and estimated costs against each of its strategic objectives until 2019/20.

**35.** The Standards Commission also produce an annual business plan which outlines the work being undertaken in the year to meet its strategic aims.

**36.** The Standards Commission has sound financial planning arrangements in place.

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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.

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# Part 3

## Governance

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### Main judgements

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**We concluded that the information in the annual governance statement 2016/17 is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers**

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#### The Annual Governance Statement

**37.** Under the Treasury's Financial Reporting Manual (FRM), the Standards Commission must prepare an annual governance statement within the Annual Report and Accounts. The statement provides assurances around the achievement of the organisation's strategic objectives.

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

#### National performance audit reports

**39.** 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 some of which might be of interest to the members of the Standards Commission. These reports ([Appendix 2](#)) present the wider context of public services environment and challenges faced by public sector in Scotland.

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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.

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# Appendix 1

## 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 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>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 uncover evidence of management override of controls.</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>2 Governance</b></p> <p>The 2015/16 Standards Commission Annual Report identified a lack of sufficient member capacity in dealing with Hearing Related functions. As a result there is a risk that the Members of the Standards Commission will be unable to perform their duties.</p>	<p>Discuss and monitor plans that the Standards Commission put in place to address this risk.</p>	<p>During the audit we obtained the information as outlined below.</p> <p>The Standards Commission obtained advice on quorum from the SPCB . The Commission has agreed not to take further action at this stage other than to keep a record of any issues/ potential issues in respect of quorum.</p> <p>The introduction of a new performance management framework for Members. .</p> <p>Post Hearings analysis included as a standard agenda item at SCS meetings so experiences and issues can be shared.</p> <p>Members' availability checked before Hearing dates and Hearing Panel membership finalised.</p> <p>A revised induction and training plan for Members was implemented in February 2017.</p>

# Appendix 2

## 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

[Common Agricultural Policy Futures programme: an update](#) – May 2016

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

[Audit of higher education in Scottish universities](#) – July 2016

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

[Maintaining Scotland's roads: a follow-up report](#) – August 2016

[Superfast broadband for Scotland: a progress update](#) – August 2016

[Scotland's colleges 2016](#) – August 2016

[Social work in Scotland](#) – September 2016

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

[i6: a review](#) – March 2017

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

# Standards Commission for Scotland

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