

# Standards Commission for Scotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

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

23 July 2018

## 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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## 2017/18 annual report and accounts

- 1** In our opinion the financial statements of Standards Commission for Scotland (SCFS) give a true and fair view of the state of the body's affairs and of its net expenditure and were properly prepared in accordance with applicable enactments and guidance.
- 2** The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements.

## Financial sustainability and the governance statement

- 3** We concluded that the SCfS has adequate short, medium and longer term financial planning arrangements in place.
- 4** We concluded that the information in the governance statement complies with the guidance issued by the Scottish Ministers.

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# Introduction

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1. This report summarises the findings from our 2017/18 audit of the SCfS.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 23 January 2018 meeting of the Audit Committee. This report comprises the findings from:
  - an audit of the SCfS annual report and accounts
  - consideration of the financial sustainability and appropriateness of governance statement.
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 transparency; and
  - value for money.
4. The [Code of Audit Practice 2016](#) (the Code) 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.
5. As highlighted in our 2017/18 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 2017/18 audit of the SCfS.
6. The SCfS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The SCfS is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and guided by the auditing profession's ethical guidance.
8. As public sector auditors we give independent opinions on the annual report and accounts and conclusions on securing financial sustainability and appropriateness of the governance statement disclosures. In doing this, we aim to support improvement and accountability.
9. The weaknesses or risks identified are only those which have come to their attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**10.** We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £2,630 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

**11.** Our aim is to add value to the SCfS by providing insight and foresight on financial sustainability and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the SCfS promote improved standards of financial planning, better management and decision making.

**12.** This report is addressed to the board 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) in due course.

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

# Part 1

## Audit of 2017/18 annual report and accounts



### Main judgements

**In our opinion the SCFS's financial statements give a true and fair view of the body's affairs and of its net expenditure and were properly prepared in accordance with applicable enactments and guidance.**

**The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements.**

### Audit opinions on the annual report and accounts

**14.** The annual report and accounts for the year ended 31 March 2018 were approved by the Standards Commission on 30 July 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- the audited part of the remuneration and staff report performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

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.

### Submission of annual report and accounts for audit

**15.** We received the unaudited annual report and accounts on 15 May 2018 in line with our agreed audit timetable.

**16.** The unaudited annual report and accounts provided was incomplete and consisted mainly of the core financial statements. Substantial parts of the annual report were not complete including the Performance report, Governance statement and Director's Report.

**17.** As a result, the planned completion process for the audit was delayed beyond the dates initially agreed in the 2017/18 Annual Audit Plan. This impacted on the scheduling of our audit work, and going forward, the financial statements received for audit should be as complete as possible. This had arisen because of the impact of a reduction in staffing levels during the period immediately prior to the submission of the unaudited annual report and accounts .

### Risks of material misstatement

**18.** Appendix 1 provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the

allocation of staff resources to the audit and how the efforts of the audit team were directed.

## Materiality

**19.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material we consider both the amount and nature of the misstatement.

**20.** We carried out our initial assessment of materiality for the annual report and accounts during the planning phase of the audit. On receipt of the annual report and accounts we reviewed our planning materiality calculations and concluded that they remained appropriate and these are summarised in [Exhibit 1](#).

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## Exhibit 1

### Materiality values

Materiality level	Amount
Overall materiality	£5,000
Performance materiality	£4,500
Reporting threshold	£250

Source: Annual Audit Plan 2017/18

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## How we evaluate misstatements

**21.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

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

## Significant findings from the audit (ISA 260)

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance.

**24.** There are no significant issues, in our view, that require to be communicated to you in accordance with ISA 260.



# Part 2

## Financial sustainability and governance statement



### Main judgements

**The SCfS has adequate short, medium and long term financial planning arrangements in place based on its Strategic Plan.**

**We concluded that the information in the governance statement complies with the guidance issued by the Scottish Ministers.**

### Financial performance in 2017/18

25. The main financial objective for the SCfS is to ensure that the financial outturn for the year is within the budget allocated by the SPCB. The SCfS had an underspend of £9,000 on a budget of £249,000 in 2017/18. The main reason for this underspend was an improvement in the efficiency of the hearings process.
26. The original 2017-18 budget provided to SCfS was £259,000, however, SCfS agreed to a budget surrender of £10,000 to the SPCB on the principle that this would not be an ongoing surrender.

### Short term financial planning

27. The SCfS receives funding on a cash basis from the overall budget of the SPCB.
28. The SCfS submitted its 2018/19 draft budget in August 2017 with a resource allocation of £262,000. A budget allocation of £264,000 was approved by the SPCB for 2018/19 which is £3,000 (1%) more than the 2017/18 budget allocation.
29. Funding from the SPCB is the SCfS's sole source of income and 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 SCfS is achieving a balanced financial plan to remain within their annual allocation.

### Medium to long term financial planning

30. 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.
31. The SCfS has a Strategic Plan covering 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. It also produces an annual business plan which outlines the work being undertaken in the year to meet its strategic aims.
32. The SCfS has adequate financial planning arrangements in place.

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.

## **Governance statement**

**33.** Our review of the governance statement assessed the assurances which are provided to the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the board's system of internal control which operated in the financial year.

**34.** We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

# 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 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 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 Data Protection and Cyber Security</b></p> <p>General Data Protection Regulation (GDPR) becomes effective from 25 May 2018 and is more extensive in scope than the current requirements of the Data Protection Act. Non compliance with the GDPR may result in financial penalties.</p> <p>Cyber security has become an increasingly important issue given the recent cyber attacks on public sector bodies. Successful cyber attacks can result in significant disruptions to operations, loss of data and reputational damage.</p>	<p>Monitor and assess preparedness for complying with the requirements of the new General Data Protection Regulation.</p> <p>Monitor and review progress made by the SCfS in regards to addressing cyber security.</p>	<p>The SCfS has completed a cyber security assessment and engaged with the Scottish Parliamentary Corporate Body (SPCB) to monitor and improve cyber security arrangements.</p> <p>The SCfS has a service level arrangement in place with the SPCB for IT services.</p> <p>The SCfS has a detailed action plan in place to prepare for complying with the requirements of GDPR.</p> <p>Regular updates are reported to members on progress with GDPR and SCfS has made good progress in preparing for GDPR.</p>

# Appendix 2

## Summary of national performance reports 2017/18

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**2017/18  
Reports**

Apr

May

Common Agricultural Policy Futures  
programme: further update



**Jun**



Scotland's colleges 2017

Jul



NHS workforce planning

Self-directed support:  
2017 progress report



**Aug**

Equal pay in Scottish councils



**Sept**

Transport Scotland's ferry services



**Oct**



NHS in Scotland 2017

Local government in Scotland:  
Financial overview 2016/17



**Nov**

Dec

Jan

Early learning and childcare



**Feb**

Managing the implementation  
of the Scotland Acts



**Mar**

# Standards Commission for Scotland

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)