

# Scottish Parliamentary Corporate Body

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for the Scottish Parliamentary Corporate Body  
December 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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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on corporate governance, transparency, financial management and financial sustainability.


## Adding value


3. We aim to add value to the Scottish Parliamentary Corporate Body (SPCB) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. We intend to help the SPCB, where appropriate, promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

4. Based on our discussions with staff, attendance at Advisory Audit Board (AAB) meetings and a review of supporting information we have identified the following main risk areas for the SPCB. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2018/19 Key audit risks

|  Audit Risk  | Source of assurance  | Planned audit work  |
|---|--|---|
| <b>Financial statements issues and risks</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 to change the position disclosed in the financial statements.</p> | <p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>                       | <ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul> |
| <p><b>2 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice and Practice Note 10 extend the</p>  | <p>Experienced and professional management<br/>Sound system of internal control.<br/>A comprehensive programme of internal</p> | <ul style="list-style-type: none"> <li>• Analytical procedures on expenditure streams.</li> <li>• Detailed testing of expenditure transactions.</li> </ul>  |

|  | Audit Risk  | Source of assurance   | Planned audit work  |
|---|---|---|---|
|   | <p>assumptions within ISA240 to the risk of fraud over expenditure.</p> <p>The risk of fraud over expenditure applies to the SPCB due to the nature and extent of expenditure incurred in supporting members.</p> | <p>audits which is agreed by the AAB.</p> <p>Participation in the NFI exercise every two years.</p> <p>No issues arising in the 2016-18 exercise.</p> | <ul style="list-style-type: none"> <li>Review and reperformance of internal audit work on members' expenses.</li> </ul> |

### Wider dimension issues and risks

#### 3 New powers and EU withdrawal

The Scottish Parliament's powers are changing substantially as a result of both the Scotland Act 2012 and the Scotland Act 2016. Further new powers may follow, as a consequence of the UK's withdrawal from the European Union. As well as increasing responsibility for raising revenues and social security, these new powers will also bring new opportunities and challenges.

Future changes in the Parliament's powers may 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.

The Constitutional Issues Board continually monitors Brexit-related and other impacts in terms of assessing future parliamentary scrutiny demands. Recent developments include the possibility of Brexit transition periods and parliamentary reforms as recommended by the Commission on Parliamentary Reform. All of those factors have been quantified and included within the SPCB's budget submission for 2018-19 with the aim of anticipating relevant demands over the next 2 - 3 years.

- Review the work of the Constitutional Issues Board in managing the impact and preparedness for the implementation of the new powers.
- Continuing review of the reports to the SPCB on the effectiveness of the mitigating actions aimed at managing the risk of the lack of capacity of the parliamentary service.

Source: Audit Scotland

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**6.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

**7.** The Auditor General for Scotland will provide an independent auditor's report to the Scottish Parliamentary Corporate Body and Scottish Parliament setting out our opinions on the annual report and accounts. We will provide the Principal Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2

### 2018/19 Audit outputs

| Audit Output                 | Target date    | AAB date         |
|------------------------------|----------------|------------------|
| Annual Audit Plan            | February 2019  | 19 December 2018 |
| Management Report            | June 2019      | TBC (AAB)        |
| Annual Audit Report          | September 2019 | TBC (AAB)        |
| Independent Auditor's Report | September 2019 | TBC (AAB)        |

Source: Audit Scotland

### Audit fee

**8.** The proposed audit fee for the 2018/19 audit of SPCB is £71,610 (£69,600 in 2017/18). In determining the audit fee we have taken account of the risk exposure of the SPCB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by 5 July 2019.

**9.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

### Responsibilities

#### Scottish Parliamentary Corporate Body and Principal Accountable Officer

**10.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**11.** The audit of the annual report and accounts does not relieve management or those charged with governance of their responsibilities.

#### Appointed auditor

**12.** Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**13.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual report and accounts

14. The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the SPCB and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the SPCB will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

15. We will give an opinion on whether the financial statements:

- give a true and fair view of the financial position of the SPCB and its expenditure and income
- have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with relevant legislation.

## Other information in the annual accounts

16. We also review and report on other information published within the annual report and accounts including the performance report, annual governance statement and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

17. We also read and consider any information in the annual report and accounts other than the financial statements and audited part of the remuneration and staff report and we report any uncorrected material misstatements.

## Materiality

18. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

19. We calculate materiality at different levels as described below. The calculated materiality values for the SPCB are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

## Exhibit 3

### Materiality values

| Materiality   | Amount         |
|---|----------------|
| <b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the latest audited accounts.  | £0.995 million |
| <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 planning materiality. | £0.746 million |
| <b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.   | £50,000        |



Source: Audit Scotland

## Timetable

**20.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

## Exhibit 4

### Annual report and accounts timetable

|  Key stage       |  Date |
|---|--|
| Latest submission date of unaudited annual report and accounts with complete working papers package | 5 July 2019  |
| Latest date for final clearance meeting with Head of Financial Resources Group                      | 16 August 2019   |
| Issue of Annual Audit Report to Advisory Audit Board  | TBC  |
| Independent auditor's report signed   | TBC  |

## Internal audit

**21.** Internal audit is led by the Head of Internal Audit who works directly for the SPCB. He is supported by an external provider (Grant Thornton UK LLP) who was appointed following open competition in June 2016 for an initial period of three years.

**22.** As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**23.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider



the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

**24.** From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following areas:

- Reimbursement of Members Expenses.

**25.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Members' Local Office Reviews
- Scottish Parliament Corporate Cards
- Low Value Payments
- Risk Management.

## Audit dimensions

**26.** Our audit is based on audit dimensions that frame the wider scope of public sector audit requirements and includes consideration of financial sustainability, financial management, governance and transparency.

### Financial sustainability

**27.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

### Financial management

**28.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the SPCB has arrangements in place to ensure systems of internal control are operating effectively
- whether the SPCB can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how the SPCB has assured itself that its financial capacity and skills are appropriate
- whether the SPCB has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### Governance and transparency

**29.** 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. We will review, conclude and report on:

- whether the SPCB can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

## Independence and objectivity

**30.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**31.** Caroline Gardner, the Auditor General for Scotland is your appointed auditor. The audit will be directed by Stephen Boyle, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the SPCB.

## Quality control

**32.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**33.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**34.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# Scottish Parliamentary Corporate Body

## Annual Audit Plan 2018/19

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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