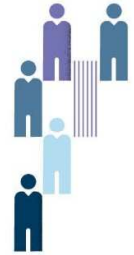




Scott-Moncrieff
business advisers and accountants

With **Campbell Dallas**
a Cognizant company



Scottish Prison Service

External Audit Annual Plan 2019/20

March 2020





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1. Introduction



Introduction

1. This document summarises the work plan for our 2019/20 external audit of the Scottish Prison Service (“SPS”).
2. The core elements of our work include:
 - an audit of, and provision of a specified audit opinion, on the 2019/20 annual report and accounts;
 - consideration and reporting on SPS’ arrangements on the four audit dimensions: financial sustainability, financial management, governance and transparency, and value for money;
 - monitoring SPS’ participation in the National Fraud Initiative (NFI); and
 - any other work requested by Audit Scotland, including the contribution to performance audits (including overview reports, performance audit reports, and impact reports).

Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, including central government bodies in Scotland, and reporting to Parliament on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Auditor General has appointed Scott-Moncrieff as external auditor of the SPS for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2019/20 and summarises:
 - the responsibilities of Scott-Moncrieff as the external auditor;
 - our audit strategy;
 - our planned audit work and how we will approach it;
 - our proposed audit outputs and timetable; and
 - background to Scott-Moncrieff and the audit management team.

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we comply with the Financial Reporting Council’s (FRC) Ethical Standards. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence. Our assessment includes a review of relationships between Scott-Moncrieff and SPS, its Advisory members and senior management that may reasonably be thought to bear on our objectivity and independence.

Adding value through the audit

9. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SPS through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help SPS promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

Openness and transparency

11. This plan will be published on Audit Scotland’s website www.audit-scotland.gov.uk.



2. Respective responsibilities of the auditor and SPS



Respective responsibilities of the auditor and SPS

Auditor responsibilities

Code of Audit Practice

12. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

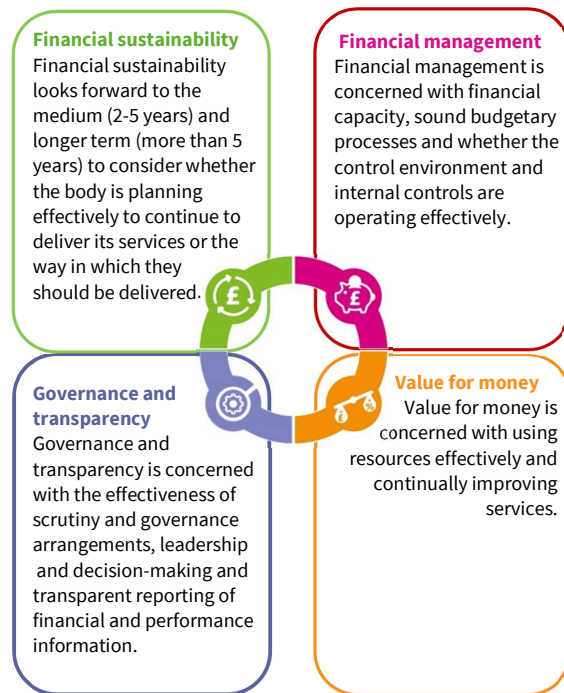
Our responsibilities

13. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 15). These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
- notify the Auditor General when circumstances indicate that a statutory report may be required
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
 - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
 - suitability and effectiveness of corporate governance arrangements
 - financial position and arrangements for securing financial sustainability

14. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Exhibit 1: Audit dimensions of wider scope public audit



Wider scope audit work

15. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
16. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
17. Our assessment takes into account the size, nature and risks of the organisation. Taking these factors into consideration, we have concluded that application of the full wider scope is appropriate at SPS.



SPS' responsibilities

18. SPS has 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. SPS' responsibilities are summarised in Exhibit 2.

Exhibit 2 – SPS' responsibilities

| Area | SPS' responsibilities |
|--|---|
| <p>Financial statements: Annual accounts containing financial statements and other related reports should be prepared.</p> | <p>SPS has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. |
| <p>Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p> | <p>SPS is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with any statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • How the organisation plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position. |



| Area | SPS' responsibilities |
|---|--|
| <p>Financial management: Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p> | <p>It is SPS' responsibility to ensure that financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>SPS is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is SPS' responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p> |
| <p>Governance and transparency: 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.</p> | <p>SPS, through its chief executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>SPS is also responsible for establishing effective and appropriate internal audit and risk management functions.</p> |
| <p>Value for money: Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p> | <p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p> |



3. Audit strategy

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Audit strategy

Risk-based audit approach

19. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to SPS. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

| | | |
|--|--|---|
| Discussions with senior officers and non-executive members | Our understanding of the justice sector and its key priorities and risks | Attendance at the Risk Monitoring and Audit Committee |
| Guidance from Audit Scotland | Discussions with Audit Scotland and other justice sector auditors | Review of internal audit's plan and reports |
| Review of SPS' corporate strategies and plans | Review of SPS' corporate risk register | The outcomes of prior year audits |

20. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

Communications with those charged with governance

21. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with SPS that these communications will be through the Risk Monitoring and Audit Committee (RMAC).

Professional standards and guidance

22. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK) (ISAs (UK)), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

Partnership working

23. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

24. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with them throughout

the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

25. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review SPS' arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We also consider the extent to which SPS uses the national performance reports as a means to help improve performance at the local level.
26. During the year we may also be required to provide information to Audit Scotland to support the national performance audits or provide information to support the assessment of the impact of specified published performance audit reports.

Internal audit

27. SPS' internal audit service is provided by an in house internal audit team. We are committed to avoiding duplication of audit effort and ensuring an efficient use of SPS' total audit resource. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to SPS is used efficiently and effectively.



4. Annual report and accounts

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Annual report and accounts

Introduction

28. Audited bodies' annual report and accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources.
29. The annual report and accounts of SPS comprise the financial statements, the performance report and the accountability report. This section of our plan sets out our approach to the audit of SPS' annual report and accounts.

Approach to audit of the financial statements

30. Our opinion on the financial statements will be based on:

Risk-based audit planning

31. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the financial statements will be based.

An audit of key systems and internal controls

32. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
33. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We examine and test compliance with best practice and SPS' own policies and procedures.
34. We take cognisance of any relevant internal audit reviews of systems and controls.
35. We update the risk assessment following our evaluation of systems and controls which ensures that we continue to focus attention on the areas of highest risk.

A final audit of the financial statements

36. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on our risk assessment.
37. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement and comply with the

HM Treasury Financial Reporting Manual 2019/20 (FRM) and give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder.

38. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

Independent auditor's report

39. Our opinion on whether the financial statements give a true and fair view of the financial position and its net expenditure and of the regularity of transactions will be set out in our independent auditor's report which will be included in the annual report and accounts.
40. We also provide an opinion on the audited part of the remuneration report, annual governance statement and performance report.

Materiality

41. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout our audit.
42. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.
43. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.



44. Our initial assessment of materiality and performance materiality is set out in the table below.

| | Materiality £million |
|--|-------------------------|
| Overall materiality: Our initial assessment is based on approximately 1.8% of budgeted expenditure, as users of the accounts are primarily interested in how the SPS funding has been spent in delivering expected performance. | 6.5 |
| Performance materiality: using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality. | 4.9 |

45. We will also report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
 - Uncorrected misstatements with a value in excess of £250,000; and
 - Other misstatements below the £250,000 threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the financial statements

46. Auditing standards require that we inform the RMAC of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the RMAC if our assessment changes significantly during the audit.



Exhibit 3 – Key audit risks in the financial statements

Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

47. In response to this risk we will review SPS' accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will review the key accounting estimates, judgements and decisions made by management. This will include, for example, depreciation and amortisation rates, asset valuations, provisions and arrears.

Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that SPS could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

48. As part of our planning process we have considered the nature of the revenue streams of the SPS against the risk factors set out in ISA (UK) 240. We have identified that for Scottish Government grant funding the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature.
49. We note that all other revenue streams are below performance materiality. Income from the prison canteen is c£4.7million¹ and, therefore, close to performance materiality. We have concluded therefore that the risk of material misstatement from fraudulent revenue recognition whilst present in SPS' non-government grant revenue streams (for example sales income, general income and prisoner canteen income) is low. We will review evaluate each material revenue stream, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.

¹ Source: 2018/19 annual report and accounts



Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 “*The Audit of Public Sector Financial Statements*” which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

50. In response to this risk we will evaluate the significant expenditure streams at SPS (excluding payroll which is not deemed to be a significant risk area) and review the controls in place over accounting for expenditure. We will consider SPS’ key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

Estates valuation

As at March 2019, the SPS held property, plant and equipment with a carrying value of £1.144 billion.²

The scale of the current estate, the continuous changes to the on-going capital investment programme create complexities and potential risks to the valuation of the assets as recorded within the annual accounts.

Given the age of the HMP Barlinnie, significant maintenance is required to keep the prison operational. We are also aware that a replacement prison for HMP Barlinnie is being considered and may be announced in the near future which may impact on the value of the current prison. There is a risk that the valuation of this site could be incorrectly recorded within the annual accounts. HMP Barlinnie building had a net book value of £45 million as at March 2019, therefore a misstatement of its valuation could result in a material misstatement in the annual accounts.

51. We will review the estate assets valuations and ensure SPS have completed a recent assessment for impairment. We will ensure assets are held in line with the FReM and SPS’ accounting policies.
52. We will review all Advisory Board minutes and other relevant documentation to ensure that any matters within in respect of the estate have been considered in the year-end valuation of assets. In addition, we will follow up on SPS’ progress in determining a long-term strategy for the overall capital investment programme.

The performance report, accountability report and other information

53. The HM Treasury Government Financial Reporting Manual 2019/20 sets out the content required within the annual report and accounts. In addition to presenting our opinions over the financial statements our independent auditor’s report will

also present our opinion on other aspects of the annual report and accounts:

Other information

54. “Other information” in the annual report and accounts comprises any information other than the financial statements and our independent auditor’s report thereon. We do not express any form of

² Source: 2018/19 annual report and accounts



assurance conclusion on the “other information” except as specifically stated below.

55. We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our independent auditor’s report

The performance report

56. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It contains two sections:
- an overview of the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year; and
 - a detailed summary of how the entity measures its performance.
57. Our independent auditor’s report will confirm whether in our opinion the performance report has been properly prepared and is consistent with the financial statements.

The accountability report

58. The accountability report is required in order to meet key parliamentary accountability requirements. It has three sections:
- A corporate governance report (including a governance statement) explaining the composition and organisation of the entity’s governance structures and how they support the achievement of the entity’s objectives.
 - A remuneration and staff report setting out staff numbers and costs as well as the entity’s remuneration policy for directors and the remuneration awarded to directors.
 - A parliamentary accountability report disclosing the regularity of expenditure and other parliamentary accountability requirements.
59. Our independent auditor’s report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff report have been properly prepared and are consistent with the financial statements.



5. Wider scope





Introduction

60. As described in section 2, the Code frames a significant part of our audit responsibilities in terms of four wider scope audit dimensions. As part of our annual audit we consider and report against these four dimensions:
- financial sustainability
 - financial management
 - governance and transparency; and
 - value for money.
61. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of SPS' key priorities and risks. In 2019/20, Audit Scotland has also identified the following wider scope risks, which we will consider during our audit as they relate to SPS:
- Fraud and corruption in respect of the procurement function; and
 - EU withdrawal.
62. The Auditor General for Scotland issued a report to Parliament under Section 22 of The Public Finance and Accountability (Scotland) Act 2000 which highlighted a range of factors which were, in combination, creating a higher financial and operational risk environment for the Scottish Prison Service. Our audit will provide an update on the SPS' progress in addressing or mitigating the key risks identified in the Auditor General's report.
63. At this stage of our audit planning, we have identified two significant risks to the wider scope of our audit in relation to financial sustainability and financial management (Exhibit 4).
64. We have not, at this stage, identified any significant risks in relation to the other dimensions. Audit planning however is a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our annual audit report. Exhibit 5 summarises our audit work in respect of each dimension.

Exhibit 4 – Wider scope significant risks

Financial sustainability: Increasing capacity pressure

SPS is facing increasing pressure in terms of prisoner numbers and is approaching maximum capacity. In June 2019, there were c.8,200 prisoners, and this has decreased slightly to c.8,150 as at January 2020. The maximum number of prisoners that can be accommodated by SPS is 8,499 as a result of the use of emergency contingency measures to expand the operating capacity of SPS.

SPS is also facing significant pressure on capacity in terms of the categories of prisoner being received within the Scottish Prison system. For example, SPS has experienced the following:

- long-term prison sentences reduce 'turnover' within the system;
- older prisoners with higher personal care and healthcare management;
- increasing requirements for separation and monitoring of prisoners (including management of the female prisoner population, historic sex offenders and violent prisoners).

These capacity issues place SPS under increasing financial pressure and as capacity demands are expected to rise further there is increasing operational risk.


65. During our audit we will review SPS' short, medium and longer term financial and operational plans and supporting models to determine the appropriateness and completeness of the plans and models prepared. We will also ensure that a longer-term operational strategy adequately considers the effect of all of these factors, to determine if SPS are taking the necessary steps to manage increased capacity pressures.



Financial management: Financial planning and budget management

We recommended as part of our 2016/17 audit that in conjunction with movement in the governance structure in alignment with the 2017-2020 SPS Corporate Plan, SPS should consider the suitability of finance professionals along with training and development needs. SPS should also consider if the current accountability structure of the Establishment Finance Managers to the Operations Directorate is most effective. In 2018/19 we also assessed these as continuing risks to SPS with progress being made towards addressing these issues. The review of the finance structure is on track to be completed by 31 March 2021.

In December 2019, SPS forecast a 2019/20 resource budget underspend of £2million and a capital budget underspend of £0.3million³. For 2019/20 there remains a significant risk of ineffective financial management.

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66. During our audit we will review of SPS' budget setting, financial planning and monitoring arrangements to ensure these provide the basis for sound financial management, as well as monitoring the progress of SPS with the review of the finance structure. Additionally, we will consider steps being taken by SPS to ensure that delays to required capital works are minimised.

³ In October 2019, the Scottish Government requested that SPS ring fence an element of the 2019/20 capital allocation relating to the slippage in the Women's Estate and HMP Glasgow projects in order to return to the Scottish Government. £35.7million was returned. The underspend reported against the capital budget takes account of this adjustment.



Exhibit 5 - Our audit approach to the wider scope audit dimensions



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the organisation's planning processes support the future delivery of services.

Consideration

In 2018/19, we concluded that SPS had good arrangements for short-term annual financial planning and monitoring. We reported that in 2018/19, SPS were only able to identify efficiency savings of £0.7million, which is considerably below the target of £8.5million. SPS' ability to make sufficient efficiency saving is limited without significant alternations to the service delivery model.

As noted in exhibit 4:

SPS is facing increasing operational pressure with current prisoner populations at c.8,150 out of a maximum of 8,499. Currently SPS are managing this pressure with short term solutions, and these are expensive. As a result, SPS need to consider longer term financial and capital planning to address this.

Our audit approach

During our 2019/20 audit we will consider SPS' financial standing. This will involve a further review of the arrangements in place for short, medium- and long-term financial planning, budgetary control and financial reporting.

It is important that such arrangements are adequate in order to properly control SPS' operations and use of resources.



Financial management

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

Consideration

In 2018/19 we concluded that SPS had satisfactory arrangements in place for financial planning over the short term and budget monitoring across the financial year. However, we highlighted a number of recommendations to improve financial management as detailed within exhibit 4.

In December 2019 SPS forecast an underspend against their revenue budget of £2million and an underspend of £0.3million against their capital budget.

The National Fraud Initiative (NFI) is a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.

The most recent NFI exercise commenced in 2018 and as part of our 2019/20 audit we will review SPS' participation in NFI.

Our audit approach

During our 2019/20 audit we will review, conclude and report on the following:

- Whether SPS has arrangements in place to ensure systems of internal control are operating effectively;
- Whether SPS can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance;
- How SPS has assured itself that its financial capacity and skills are appropriate;
- Whether SPS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and
- SPS' participation and progress in the National Fraud Initiative.



Governance and transparency

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.

Consideration

In 2018/19 we reported that SPS had appropriate governance arrangements in place. Our assessment was informed by a review of the corporate governance arrangements in place, information provided to the Advisory Board and Committees.

SPS have an internal audit function in operation which monitors the operation of internal controls. However, for the past two years, the annual internal audit plan of work has not been completed.

Our audit approach

As part of our work on governance and transparency work in 2019/20 we will review, conclude and report on:

- whether SPS can demonstrate that the governance arrangements in place are appropriate and operating effectively;
- whether internal audit have completed the work for the 2019/20 audit plan, and have appropriately planned the work required for 2020/21;
- whether induction arrangements for new Board members support effective scrutiny and challenge;
- the transparency of decision-making, and on financial and performance reporting; and
- SPS' preparations for the potential impact of Brexit.



Value for money

Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

| Consideration | Our audit approach |
|---|---|
| <p>For each year of the 2017-20 Corporate Plan SPS develops an Annual Delivery Plan (ADP). The ADP sets out Essential Actions to be delivered in the year in order to deliver Strategic Outcomes. Progress is reported quarterly to the Executive Management Group with matters related to risk management, control and governance reported to RMAC.</p> <p>SPS' review of KPIs has progressed through 2018/19. Work has been overseen by a KPI Advisory Group comprising senior representation from across SPS and the Scottish Government. SPS is well progressed in developing its new suite of KPIs which will be aligned with the Strategic Themes of the Corporate Plan 2019-22 and will ensure the establishment of a value for money framework. This work is expected to be completed during 2019/20.</p> <p>The SPS' own KPIs identified the need for improvement in some key areas, including:</p> <ul style="list-style-type: none"> • Managing sickness absence rates for prison officers • Managing the impact of backlog maintenance on the prison estate • Reducing the number of assaults on prisoners and prison officers • Increasing levels of purposeful activity hours. <p>Due to the issues faced by SPS with regards to prisoner numbers reaching maximum capacity, there is a potential lack of focus on improvement in other services. As part of our 2019/20 audit, we will review the Service's progress in improving performance across KPIs.</p> | <p>As part of our 2019/20 audit we will review, conclude and report on the following:</p> <ul style="list-style-type: none"> • How SPS demonstrates a focus on improvement in the context of continuing and significant financial challenge; • How SPS provide a clear link between financial decisions and actual performance achieved; • How SPS plan to address issues with high staff sickness absence rates to reduce cost of ex-gratia payments; and • Review the process for tendering for new providers and consider this against the value for money principles. |



6. Audit outputs, timetables and fees

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Audit outputs, timetable and fees

This section of our plan provides details of our audit outputs, timetable and proposed audit fees for the audit of SPS.

| Audit output | Format | Description | Target month |
|---|--------|--|--------------|
| External audit plan | Report | This report sets out the scope of our audit for 2019/20. | March 2020 |
| Independent Auditor's Report | Report | This report will contain our opinion on the financial statements, the regularity of transactions and the audited part of the remuneration report, annual governance statement and performance report. | June 2020 |
| Annual Report to SPS and the Auditor General for Scotland | Report | At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice. | June 2020 |

Audit outputs

67. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
68. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

varied above the expected fee level to reflect the circumstances and local risks within the body.

72. For 2019/20 we propose setting the audit fee at 10% above the Audit Scotland expected level to account for the additional work that is required to follow up on the prior year Section 22 report.

Audit fee

69. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
70. Audit Scotland is not empowered to levy charges on SPS and the costs of auditing SPS is met from Parliamentary funding. Although SPS is not required to meet the resulting cash cost of the audit fee, it is required to disclose notional audit fees in the financial statements. This will count against budget cover and reflect, among other things, the standard of governance and control perceived to be in place in the body.
71. As auditors we negotiate a fee with the audited body during the planning process. The fee may be

| | 2019/20 | 2018/19 |
|---------------------------|-----------------|-----------------|
| Auditor remuneration | £88,308 | £80,250 |
| Pooled costs | £20,800 | £20,190 |
| Audit support costs | £4,170 | £4,560 |
| Total expected fee | £113,278 | £105,000 |

73. We will take account of the risk exposure of SPS and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.



Audit timetable

74. A summary timetable, including audit outputs, is set out as follows:

| | | |
|---------------|---|---|
| JAN 20 | ● | Planning meeting to inform the 2019/20 audit |
| FEB 20 | ● | Interim planning visit to inform the 2019/20 audit |
| MAR 20 | ● | Presentation of External Audit Plan to the RMAC |
| MAY 20 | ● | Accounts presented for audit and final audit visit begins |
| JUN 20 | ● | Annual audit report presented to the RMAC and submitted to the Auditor General for Scotland |



7. Appendices





Appendix 1: Scott-Moncrieff

Scott-Moncrieff is one of Scotland's leading firms of auditors and business advisers. We are part of the fast-growing Cogital Group, giving us a both a UK-wide presence and international reach in 190 offices with 6,500 staff. Cogital Group is an innovator, investor and early adopter of technologies that provide continuous improvement to the service we provide our clients.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

| Edinburgh | Glasgow | Inverness |
|---|---|---|
| Exchange Place 3 Semple Street Edinburgh EH3 8BL | 25 Bothwell Street Glasgow G2 6NL | 10 Ardross Street Inverness IV3 5NS |
| (0131) 473 3500 | (0141) 567 4500 | (01463) 701 940 |

Your engagement lead



Gary Devlin

Audit Partner

gary.devlin@scott-moncrieff.com

Gary is the Partner responsible for all aspects our audit of SPS as well our other external and internal audit appointments in the criminal justice sector. Gary has over 20 years' experience in providing audit, assurance and advisory services to a wide range of public sector clients, with over 15 years acting as an Engagement Lead for appointments through Audit Scotland. He brings with him significant central government external audit experience. Gary is always available to provide advice and support to members and officers of SPS.



Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standards stipulate that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence.

Audit Team

One of Scott-Moncrieff's External Audit Managers, Stacey Law, left Scott-Moncrieff in February 2019 to join SPS' finance team at group head level. Stacey previously acted as an Assistant Manager on the 2016/17 SPS audit. During the 2017/18 audit Stacey had involvement in the planning stage and then undertook a secondment to Scottish Government's Health Department. Stacey had no involvement in the 2018/19 audit. Stacey is well known to the entire Scott-Moncrieff team.

We have considered the potential resulting independence issues in accordance with FRC's Ethical Standards. We have identified the following potential threats to our independence: self-interest, familiarity and intimidation. We have responded to each of these threats by implementing appropriate safeguards.

Confirmation of independence

We are required to seek approval for potential non-audit work from Audit Scotland before we accept any assignment. The approval process requires us to demonstrate to Audit Scotland how we comply with Ethical Standards and manage and mitigate potential risks to independence. This process also includes a separate review by our Ethics Partner to also confirm that we appropriately manage potential threats to our independence in our appointment as external auditors.

We confirm that we comply with FRC's Ethical Standards. In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff, SPS, its Advisory members and senior management that may reasonably be thought to bear on our objectivity and independence.



Appendix 3: Statement of understanding

Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of SPS and Scott-Moncrieff.

Annual report and accounts

We will require the annual report and accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant SPS staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy in advance of our final audit visit which sets out our expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for SPS' responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from SPS during the course of the audit on matters having a material effect on the annual report and accounts. This will take place by means of a letter of representation, which will require to be signed by the Accountable Officer.

Internal audit

It is the responsibility of SPS to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if she knows or suspects that any person has engaged in money laundering or terrorist financing.

We require SPS to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales.

Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Gary Devlin. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of you not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants in England and Wales.



We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

Agreement of terms

We shall be grateful if the RMAC would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.

