

Scottish Parliamentary Corporate Body

Management report 2019/20



 AUDIT SCOTLAND

Prepared for Scottish Parliamentary Corporate Body

June 2020

Audit findings

Introduction

1. This report contains an update on the progress of our external audit and a summary of the key issues identified during the interim audit work carried out at the Scottish Parliamentary Corporate Body (SPCB). Our interim work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to determine our approach during the 2019/20 financial statements audit.

2. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. We have also under the [Code of Audit Practice](#), carried out work on the wider dimension audit. This focussed on financial management, financial sustainability, governance and transparency.

Covid-19 Pandemic

4. Audit Scotland issued a [briefing note](#) in May 2020 *COVID-19 What it means for public audit in Scotland*. We recognise that public bodies are under exceptional pressure as they manage the impact of the pandemic. Guidance and deadlines for financial reporting have been amended to reflect this and it will be some time before we fully understand the impact on public services and finances.

5. Our approach to audit will be flexible, pragmatic and consistent. Sound financial management and effective governance are more important than ever, and audit has a key role in providing assurance and aiding scrutiny. We will continue to prioritise quality and independence.

6. To reflect the pressure on public bodies, some deadlines for the audit have been extended. This will impact on timings for audit work and reporting. Standard setters are allowing bodies to streamline the information they provide in performance and accountability reports, but financial statements remain unchanged.

7. We will need to be flexible with our resources to manage the changing timescales and priorities and we will seek to mitigate the impact of remote working on our audits. We will maintain audit quality while being flexible about timelines.

Audit progress

8. Audit Scotland staff have been working from home since 17 March 2020. We have adapted our "normal" audit approach and are developing new ways of auditing remotely. There have been on-going discussions with Parliamentary staff around the best way to audit remotely.

9. The audit work contained in this report largely pre-dates the Covid-19 global pandemic. We have concluded our interim audit work, largely as planned, and drawn conclusions as set out below.

10. We remain in regular dialogue with management throughout this period to discuss the potential impact on the year-end financial statements audit. At this stage we would hope to progress the audit in line with original timescales, but will require to keep this under close review based on our experience and the developing situation. We also recognise that our audit approach may require further revision should we encounter any significant barriers to our planned approach. We will provide a verbal update on the current position at the Audit Advisory Board meeting on 18 June 2020.

Conclusion

11. We have evaluated SPCB's key financial systems and we found that key controls are operating satisfactorily and we are able to take planned assurance for the audit of the financial statements. However we identified one control weakness in relation to non-current assets which is summarised in [Exhibit 1](#).

12. The weakness identified represents the only one that has come to our attention during the course of normal audit work and therefore is not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to SPCB.

13. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

14. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Work summary

15. Our 2019/20 interim audit work covered high level reviews of key financial systems including payroll, other admin expenditure, members expenses, non-current assets and cash and bank; to support our overall understanding of the financial systems at SPCB.

16. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

17. To support the delivery of the financial statements audit we completed early substantive testing of non-pay expenditure transactions on data from the first nine months of the financial year. No specific issues have been identified from this work. There will be further sample testing to ensure that year end invoices are correctly presented in the annual report and accounts.

18. Substantive testing was also carried out on payroll with focus on temporary and permanent changes as well as recalculation of net pay. No errors were identified in the samples tested.

Risk of fraud within procurement

19. We have reviewed the SPCB's procurement process and concluded that policies are in line with the Scottish Procurement Policy Notes and that the control environment is operating effectively.

20. Staff within procurement are periodically trained on fraud and how to identify fraud. All purchasers undertake mandatory fraud training and the procurement team also support training sessions to contract managers leading to a level of fraud awareness within SPCB.

21. External assessments are undertaken of the procurement function every two years. This is in the form of a PCIP (Procurement and Commercial Improvement Programme) assessment. The most recent assessment shows a score score of 90% (2018) which is an improvement of 7% on the 2016/17 score.

National Fraud Initiative

22. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

23. SPCB has investigated a sample of 181 out of 387 matches. SPCB did not identify any errors as a result of the NFI work. The low value of fraud identified indicates that SPCB's anti-fraud controls are working effectively.

24. We concluded that appropriate investigation work has been carried out for the NFI exercise and that the results have been reported to the Advisory Audit Board. Our conclusions will inform the national report on the 2018/19 NFI exercise.

Equality

25. Work is ongoing on the SPCB's arrangements for fulfilling the general equality duty under the Equality Act 2010.

Risks identified

26. The key control weakness identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

27. Overall , we found that key controls are operating satisfactorily and we are able to take assurance for the audit of the financial statements. We will seek additional assurances over non-current asset balances through review of year end reconciliations.

Exhibit 1

Key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
<p>Non-current asset reconciliations</p> <p>As part of our walk-through of the non-current assets system, a review of reconciliations was undertaken.</p> <p>Two month reconciliations were selected for review. There was evidence that these were prepared in a timely manner, however no review of the reconciliations had been undertaken.</p> <p>It is our understanding that this is carried out at the year end.</p> <p>There is an increased risk of material mistatment as the non-current assets is a material area and a lack of timely review can lead to issues not being picked up until the year end.</p>	<p>Regular reviews of the reconciliations will be introduced for 2020-21.</p>	<p>Financial Accountant and Financial Controller. From April 2020.</p>

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