

Scottish Parliamentary Corporate Body

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

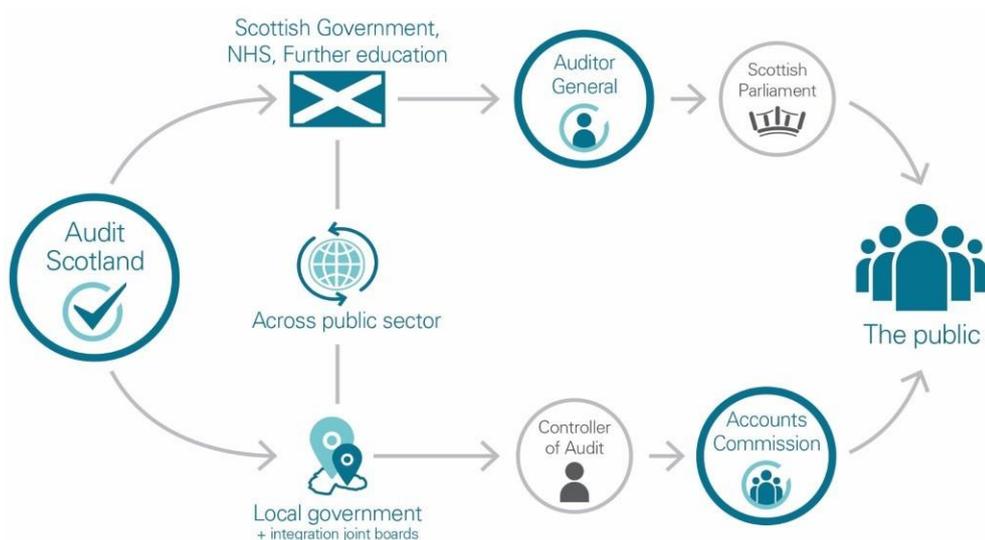
Prepared for the Scottish Parliamentary Corporate Body
March 2021



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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual report and accounts and meet the wider scope requirements of public sector audit.
- 2.** The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
- 3.** The public health crisis caused by the coronavirus (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
- 4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The well-being of audit teams and the delivery of high-quality audits remains paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

- 5.** 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. In so doing, we intend to help the SPCB promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

- 6.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for the SPCB. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</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"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>We consider this risk to be the most prevalent where there is incentive and opportunity for fraudulent manipulation. We therefore focus on MSPs expenses and non-pay expenditure.</p>	<p>Effective systems for the timely recording of accounts payable.</p> <p>Effective budget monitoring by management.</p> <p>Financial authorisation limits in place for approving expenditure.</p> <p>A comprehensive programme of internal audits which is agreed by the AAB.</p> <p>Regular monitoring of National Fraud Initiative outcomes.</p>	<ul style="list-style-type: none"> • Assessment of the design of controls over non-pay expenditure • Analytical procedures over expenditure streams. • Detailed testing of expenditure transactions focusing on areas of greatest risk. • Review and reperformance of internal audit work on members' expenses.
<p>3 Risk of material misstatement caused by estimation and valuation</p> <p>There is a degree of subjectivity in the measurement and valuation of the material account areas of pensions and non-current assets.</p> <p>The subjectivity in the measurement and valuation continues to represent an increased risk of misstatement in the financial statements.</p>	<p>A desktop valuation is planned for 31 March 2021 by an experienced and appropriately qualified valuer.</p> <p>Detailed discussions between the valuers and the SPCB team.</p> <p>Pension liability figures are provided by an independent and appropriately qualified actuary.</p>	<ul style="list-style-type: none"> • Review of accounting policies to ensure that they are reasonable and appropriately applied. • Completion of 'review of the work of an expert' audit programme for the relevant professional valuer and actuary. • Review of SPCB's procedures for the review of the valuer's work. • Review of the SPCB's accounting for revaluations to ensure compliance with accounting standards. • Review of responses to the audit questionnaire issued to the pension fund auditors.

 Audit Risk	Source of assurance	Planned audit work
		<ul style="list-style-type: none"> Use of an auditors expert to assess the competence of the actuary and evaluate the results of their work.
Wider dimension risks		
<p>4 Ongoing implications of Covid-19 and EU Withdrawal</p> <p>In 2020/21 the SPCB had to react quickly to events outwith its control. Covid-19 and EU withdrawal had a significant impact on the operations of the SPCB and how it uses resources.</p> <p>It is likely these events will have ongoing implications over the medium term. During periods of uncertainty it is important to ensure that arrangements in place are adequate and appropriate.</p> <p>There is a risk that the SPCB is not prepared for the medium term implications arising from EU withdrawal and Covid-19.</p>	<p>The Constitutional Issues Board continues to monitor the implications for the Scottish Parliament of the UK's withdrawal from the EU and other constitutional matters.</p> <p>The Parliament's Incident Management response was invoked to deal with Covid-19 and this subsequently became an ongoing programme of work under the governance of the Covid-19 Working Group. It monitors Regulations and guidance to inform parliamentary operations, policies, communications and short and medium term plans in response to the coronavirus pandemic, adapting and updating these as the situation evolves.</p> <p>Under the Strategic Resources Board, the SPCB budget has been adapted in 2020-21 to establish a sustainable operating model which has required constant reprioritisation to invest in a wide range of changes.</p>	<ul style="list-style-type: none"> Consideration of the SPCBs response to Covid-19 and EU withdrawal in 2020/21. Consideration of medium term plans and any additional plans in relation to Covid-19 and EU withdrawal.
Source: Audit Scotland		

7. As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. The operating income received by the SPCB is expected to be below our materiality levels and therefore we have rebutted this presumed risk. The SPCB also receives funding from the Scottish Consolidated Fund, however, due to the nature of this funding we feel the opportunity for fraudulent recognition is limited.

8. Public sector bodies should be able to demonstrate how they are fulfilling the general equality duty under the Equality Act 2010. We started a review of the SPCB's arrangements for complying with the principles of fairness and equality in

2019/20. We will complete our review in 2020/21 and report our conclusions as part of our work on governance and transparency.

Reporting arrangements

9. 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.

10. 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 officers to confirm factual accuracy.

11. The Auditor General for Scotland will provide an independent auditor's report to the SPCB setting out his opinions on the annual report and accounts. We will provide the Principal Accountable Officer with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

12. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the annual report and accounts of the SPCB to be presented to Parliament within nine months of the financial year – end, i.e. 31 December. All dates below may be subject to change due to uncertainty and additional challenges arising from home working.

Exhibit 2 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2021	17 March 2021
Management Report	30 June 2021	TBC
Independent Auditor's Report	31 December 2021	TBC
Annual Audit Report	31 December 2021	TBC

Source: Audit Scotland

Notional audit fee

13. The proposed notional audit fee for the 2020/21 audit of the SPCB is £74,860 (2019/20 £73,030). In determining the audit fee we have taken account of the exposure of Scottish Parliamentary Corporate Body, 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 report and accounts, with a complete working papers package by 19 July 2021.

14. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and or being unable to take planned reliance from the work of internal audit, a supplementary notional 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

15. 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.

16. The audit of the annual report and accounts does not relieve management or the Advisory Audit Board as those charged with governance, of their responsibilities.

Appointed auditor

17. 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.

18. 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

19. 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 Scottish Parliamentary Corporate Body 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 Scottish Parliamentary Corporate Body 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.

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

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2021 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Statutory other information in the annual report and accounts

21. We also review and report on statutory other information published within the annual report and accounts including the performance report and the accountability report which contains the 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.

22. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

23. 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



characteristics



responsibilities



principal activities



risks



governance arrangements

uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

24. We calculate materiality at different levels as described below. The calculated materiality values for Scottish Parliamentary Corporate Body are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess 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 2020 based on the latest audited accounts.	£1.05 million
Performance materiality – 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.	£0.79 million
Reporting threshold (i.e., clearly trivial) – 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 thousand

Source: Audit Scotland

Timetable

25. To support the efficient use of resources it is critical that the annual report and accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#). However, the dates may be subject to change as a result of the uncertainty and additional challenges associated with the ongoing Covid-19 pandemic.

Exhibit 4 Annual report and accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	19 July 2021
Latest date for final clearance meeting with Chief Financial Officer	3 September 2021
Issue of Letter of Representation and proposed independent auditor's report	TBC
Agreement of audited unsigned annual report and accounts and issue of Annual Audit Report to those charged with governance	TBC
Independent auditor's report signed	TBC

Internal audit

26. Internal audit is provided by the Head of Internal Audit who is employed by the SPCB and is supported by Grant Thornton UK LLP. 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 the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA (UK)610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

27. We have concluded that internal audit operates in accordance with the main requirements of PSIAS and that we can place reliance on internal audit during 2020/21.

Using the work of internal audit

28. International 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.

29. 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
- Review of payroll controls

Audit dimensions

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

Financial sustainability

31. 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 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 consider:

- 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

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

- whether arrangements are in place to ensure systems of internal control are operating effectively
- whether the effectiveness of budgetary control systems in communicating accurate and timely financial performance can be demonstrated

- how the SPCB has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

33. 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 consider:

- 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

34. 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.

35. Stephen Boyle, the Auditor General for Scotland, is your appointed auditor. The audit will be directed by Mark Taylor. Auditing and ethical standards require us 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 Scottish Parliamentary Corporate Body.

Quality control

36. International Standard on Quality Control 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.

37. 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.

38. 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.

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