

Water Industry Commission for Scotland

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for Water Industry Commission for Scotland

April 2021

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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 disease 2019 (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 remain 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 Water Industry Commission for Scotland (WICS) 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 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 WICS. 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

Risk identified	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>	<p>Detailed testing of journal entries.</p> <p>Assessment of estimation methodology applied and the reasonableness of accounting estimates contained within the financial statements.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
Wider dimension risks		
<p>2 Performance management</p> <p>Per the recently published Corporate Plan 2021-27, the Commission has identified a suite of key performance indicators (KPIs) to be used in measuring performance against a set of outcomes which support the Strategic Objectives. These are effective from 1 April 2021, with reporting of performance against the KPIs being developed during the year and planned to commence from March 2022.</p> <p>There is a risk that measurement and reporting of achievement of strategic outcomes is not sufficiently focussed and robust in the interim period up to full implementation of the reporting framework, which could have an adverse impact on effective scrutiny of performance.</p>	<p>Reporting to Commission Members for scrutiny of progress on developing the performance management framework.</p>	<p>Review of progress reports to Commission Members.</p> <p>Ongoing dialogue with officers.</p> <p>Review of related disclosures.</p> <p>Commentary and, where appropriate, recommendations in 2020/21 Annual Audit Report.</p>

Source: Audit Scotland

7. Practice Note 10 (Audit of Public Sector Bodies in the UK) states that there is a risk that misstatements may arise from fraudulent financial reporting, where an audited body may manipulate results to meet externally set targets, that the risk of fraud is more likely to occur in expenditure and that this risk increases with the variety and extent of expenditure incurred. We have rebutted this risk for WICS as there are limited opportunities to manipulate the way expenditure is recognised.

8. As set out in ISA(UK) 240, there is a presumed risk of fraud in the recognition of revenue. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk for 2020/21 in relation to income from statutory contributions received from Scottish Water, for income received from levies charged to licensed providers and for

income earned from Hydro Nation activity. Both the statutory contributions and the levies are agreed in advance by the Scottish Government, which limits the opportunity for manipulation. Hydro Nation income is largely determined by the various contract arrangements agreed with overseas water authorities and other agencies, so that potential for manipulation or misstatement is also limited.

Reporting arrangements

- 9.** With Covid-19 disruption continuing, a degree of flexibility will be required with the timing of audit outputs. We will work with the finance team to agree the scheduling of work to ensure that statutory reporting deadlines are met wherever possible.
- 10.** 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.
- 11.** 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.
- 12.** We will provide an independent auditor's report to WICS, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the 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.
- 13.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December.

Exhibit 2 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	30 th April 2021	ARC - 11 May 2021
Proposed Independent Auditor's Report	By 31 October 2021	ARC – 16 August 2021 ** Board – September 2021 (date TBC) **
Annual Audit Report	By 31 October 2021	ARC – 16 August 2021 ** Board – September 2021 (date TBC) **

Source: Audit Scotland

**** As noted elsewhere in Annual Audit Plan, delivery will be dependent on resourcing priorities**

Audit fee

14. The proposed audit fee for the 2020/21 audit of WICS is £13,670 [2019/20: £13,340]. In determining the audit fee, we have taken account of the risk exposure of WICS, 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 end June 2021.

15. 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

Audit and Risk Committee and Accountable Officer

16. 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.

17. The audit of the annual report and accounts does not relieve management, or the Audit and Risk Committee as those charged with governance, of their responsibilities.

Appointed auditor

18. 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.

19. 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

20. 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 WICS and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how WICS 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.

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

- give a true and fair view of the state of affairs of WICS as at 31 March 2021 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with the financial reporting framework;
- have been prepared in a form directed by Scottish Ministers in accordance with the Water Industry Act 1999, as amended by the Water Industry (Scotland) Act 2002 and the Water Services etc (Scotland) Act 2005.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual report and accounts

22. We also review and report on statutory other information published within the annual report and accounts including the performance report, corporate governance report and 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.

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

Materiality

24. 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.

25. We calculate materiality at different levels as described below. The calculated materiality values for WICS 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 1.5% of gross expenditure for the year ended 31 March 2021 based on the audited accounts for 2019/20.	£66,000
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.	£49,000
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. We have set this at 5% of planning materiality.	£3,000



Source: Audit Scotland

Timetable

26. 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 accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	By 30 June 2021
Latest date for final clearance meeting	TBC
Issue of Letter of Representation and proposed independent auditor's report	By 31 October 2021 **
Agreement of audited unsigned annual report and accounts	By 31 October 2021 **
Independent auditor's report signed	By 31 October 2021 **
Issue of Annual Audit Report to those charged with governance	By 31 October 2021 **

**** As noted elsewhere in Annual Audit Plan, delivery will be dependent on resourcing priorities**

Internal audit

27. Internal audit is provided by Grant Thornton. ISA 610 requires Audit Scotland to carry out an 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). 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.

28. We will rely on the assurances from that central review and report any significant findings to management on a timely basis.

Using the work of internal audit

29. 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 and effectively.

30. From our initial review of the 2020/21 Internal Audit Plan, we do not plan to use any specific areas of work in support of our opinion.

Audit dimensions

31. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

32. The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In the light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2020/21 audit of WICS.

33. We will review the annual governance statement and assess the financial sustainability of WICS as part of our financial statements audit. Conclusions on these matters will be reported accordingly in our Annual Audit Report.

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. The engagement lead and appointed auditor for WICS is Stephen O’Hagan (Senior Audit Manager). 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 WICS.

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.

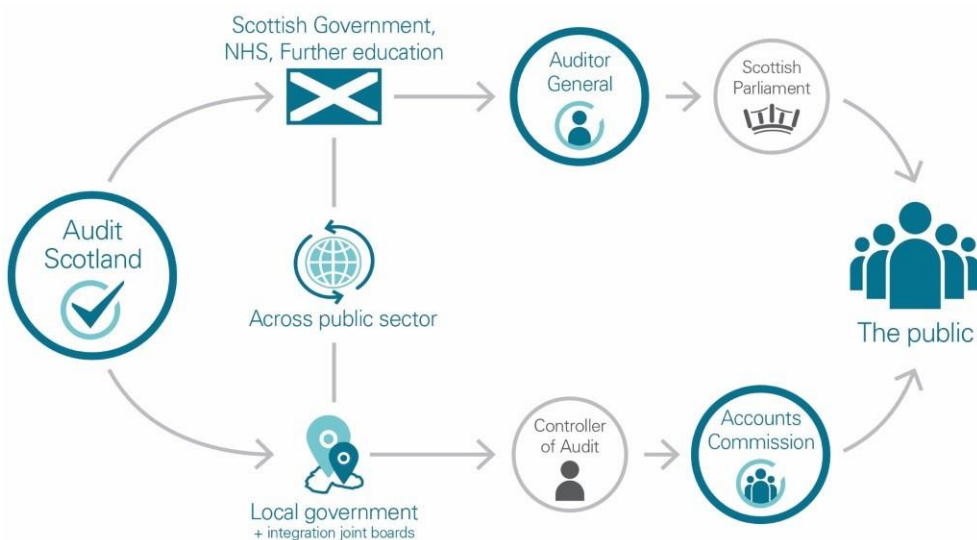
37. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that 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.

Appendix 1: 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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