

# Scottish Prison Service

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Prison Service

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of the Scottish Prison Service (SPS). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, leading to an independent audit opinion
- independent audit opinions on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

## Audit Appointment

2. We are pleased to be appointed as the external auditors of SPS for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at Appendix 1.

3. In the first year of the audit appointment we invest significant time gaining an understanding of the organisation and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our work continues to be focused on risk.

## Adding value

5. We aim to add value to SPS through our external audit work by being constructive and forward looking, by identifying and encouraging good practice and making recommendations for improvement. In doing so, we will help SPS promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and the Scottish Prison Service

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and SPS. Key responsibilities are summarised below.

### Auditor responsibilities

7. 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.

8. 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 wider scope arrangements in place at SPS. In doing this, we aim to support improvement and accountability.

### The Scottish Prison Service's responsibilities

9. SPS is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. SPS has 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 deliver their objectives.

# Financial statements audit planning

## Introduction

**11.** The annual report and accounts are an essential part of demonstrating SPS's stewardship of resources and its performance in the use of those resources.

**12.** We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment. This highlights the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**13.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

## Materiality levels for the 2022/23 audit

**14.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for SPS are set out in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for the Scottish Prison Service

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of SPS's operations. For the year ended 31 March 2023 we have set our materiality at 1.5% of gross expenditure based on the audited financial statements for 2021/22.	£6.0 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this could indicate that further audit procedures should be considered. Using our professional judgement we have assessed performance materiality at 70% of planning materiality.	£4.2 million

**Reporting threshold** – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.

£250,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**15.** Our risk assessment draws on our cumulative knowledge of SPS, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit and a review of supporting information.

**16.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the audit. Where such changes occur we will advise management and, where relevant, report them to those charged with governance.

**17.** Based on our risk assessment process we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Assess the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Detailed testing of journal entries</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>2. Estimation in the valuation of provisions</b></p> <p>At 31 March 2022 SPS had provisions totalling £17.232 million. There is a significant degree of subjectivity in the measurement and valuation of these provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Review of specific cases as required with HR and Legal Services who hold all information relating to each case.</li> <li>• Review communication from solicitors confirming their advice on prospects of each case.</li> <li>• Injury Benefits is the largest value provision. My CSP monthly charge reports can be reviewed for this.</li> </ul>	<ul style="list-style-type: none"> <li>• Focussed testing of accounting accruals and prepayments.</li> <li>• Review any third-party information used by SPS in calculating the provisions.</li> <li>• Review any calculations used in reaching the provision amounts.</li> <li>• Focussed substantive testing.</li> </ul>

Source: Audit Scotland

**18.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

**19.** We have rebutted this risk as funding received from the Scottish Government is clearly communicated and can be readily agreed to third party confirmations. In addition, SPS's other income streams are either not material or comprise of a high volume of low valued transactions. We concluded that there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

**20.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom* as most public-sector bodies are net spending bodies the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

**21.** We have rebutted this risk as the main expenditure streams of SPS can either be readily forecast based on a predictable pattern of spend or mainly comprise a high volume of relatively low value items. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

**22.** As a result, we have not incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

### **Other areas of audit focus**

**23.** As part of our assessment of audit risks we have identified other areas where we consider there to be risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

**24.** The areas of specific audit focus are:

- **Estimation in the valuation of land and buildings**

At 31 March 2022 SPS held land, buildings and dwellings with a net book value of £1,122 million. There is a significant degree of subjectivity in the valuation of land, buildings and dwellings. Valuations are based on specialist assumptions and estimates, and changes in these can result in material changes to valuations. This level of estimation means there is a risk of material misstatement to the financial statements relating to asset valuations.

- **Implementation of IFRS 16**

The expected impact of IFRS 16 on SPS's financial statements is £3.7 million. While this balance is not material, the overall closing lease balance in 2021/22 was £13.252 million. Since this is the first year of adoption of IFRS 16, there is a risk that the disclosures included in the financial statements may be incorrect.

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# Wider Scope and Best Value

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## Introduction

**25.** The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

**26.** In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – 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).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by SPS. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how SPS demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

## Wider scope risk

**27.** We have identified a wider scope audit risk in the area set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

**Exhibit 3****2022/23 wider scope risk**

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Financial Sustainability</b></p> <p>SPS faces a challenging financial position and this is likely to continue for the foreseeable future. Financial pressures arising from issues such as higher energy costs, inflationary pressures on contracts and pay awards, as well as an anticipated flat cash allocation from the Scottish Government until 2026/27, represents a significant challenge for SPS.</p>	<ul style="list-style-type: none"> <li>Internal Audit Review of SPS response to Fiscal Challenges has been carried out (Jan23 to Mar23) which identified good practice but also areas for improvement.</li> <li>The budget paper that is prepared for the Advisory Board (AB) also highlights cost pressure areas.</li> <li>The monthly monitoring reports, both to the Scottish Government and the SPS Executive Management Group (EMG)/AB, throughout the year.</li> </ul>	<ul style="list-style-type: none"> <li>Review SPS's arrangements in place to manage its financial position.</li> <li>Review any progress made in developing financially sustainable plans in the short to medium term.</li> <li>Review any forecasts/budgeting work for future years.</li> </ul>

Source: Audit Scotland

**28.** Our planned work on our wider scope responsibilities is risk based and proportionate. In addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider both climate change and cyber security.

**Climate Change**

**29.** Tackling climate change is one of the greatest global challenges. Scotland has a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**30.** The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23 we will gather information on SPS's arrangements for responding to climate change. This will cover areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

**Cyber Security**

**31.** There continues to be a significant risk of cyber-attacks to public bodies. As such it is important to have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In

2022/23, we will consider SPS's arrangements for managing and mitigating cyber security risks.

## **Best Value**

**32. [Ministerial Guidance to Accountable Officers](#)** for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within SPS.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**33.** All annual audit plans and reports, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**34.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy.

**35.** We will provide an independent auditor's report to SPS, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide SPS and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**36.** [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by 31 August 2023.

## Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Risk Monitoring and Audit Committee date
Annual Audit Plan	15/03/2023	22/03/2023
Independent Auditor's Report	19/07/2023	26/07/2023
Annual Audit Report	19/07/2023	26/07/2023

Source: Audit Scotland

## Timetable

**37.** To support an efficient audit it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#). This has been discussed with management.

**38.** SPS's Finance Policy and Services Department is currently operating under capacity. This may present challenges for the Department in delivering the draft annual report and accounts, complete with comprehensive working papers, within the agreed timetable set out below. We will work closely with finance colleagues throughout the audit process and request that any issues that may impact on this timetable are notified to us at the earliest opportunity.

**39.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

## Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the complete unaudited remuneration and staff report, financial statements, notes to the accounts and comprehensive working papers package	29 May 2023
Latest submission date for receipt of the complete annual report	23 June 2023
Latest date for final clearance meeting with the Director of Finance (or equivalent)	7 July 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	19 July 2023
Agreement of audited and unsigned annual report and accounts	26 July 2023
Issue of Annual Audit Report to those charged with governance.	26 July 2023
Signed Independent Auditor's Report	27 July 2023
Latest date for signing of SG Consolidation return	TBC

Source: Audit Scotland

## Audit fee

**40.** In determining the audit fee we have taken account of the risk exposure of SPS and the planned management assurances in place. The proposed audit fee for 2022/23 is £110,460 as set out in Exhibit 6.

**41.** Our fees have increased in 2022/23. This reflects the current audit market and the rising costs in delivering high quality audit work. There are increased

regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

## Exhibit 6

### Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	119,270
Pooled costs	7,920
Contribution to Audit Scotland costs	4,200
Sectoral Cap Adjustment	-20,930
Total 2022/23 fee	110,460

Source: Audit Scotland

**42.** In setting the fee for 2022/23 we have assumed that SPS has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable. The audit fee assumes there will be no major change in respect of the scope of the audit during the year. Where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**43.** It is the responsibility of SPS to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work as part of our risk assessment procedures.

**44.** While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**45.** Auditors appointed by the Auditor General for Scotland 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.

**46.** 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**47.** The appointed auditor, and engagement lead, for SPS is Michael Oliphant, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of SPS.

## Audit Quality

**48.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**49.** Until 2021/22 the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

**50.** ISQC (UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM (UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**51.** Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**52.** 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 also welcome feedback at any time and this may be directed to the engagement lead.

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# Appendix 1. Your audit team

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**53.** The audit team involved in the audit of SPS have significant experience in public sector audit.

**Michael Oliphant**  
Audit Director

Michael joined Audit Scotland in 2004 and has extensive experience of delivering financial and performance audits across central government, local government and the NHS. He is a Fellow of the Chartered Institute of Public Finance and Accountancy.

**Tommy Yule**  
Senior Audit Manager

Tommy has over 22 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies. He is a Fellow of the Chartered Institute of Public Finance and Accountancy.

**Neil Maclean**  
Senior Auditor

Neil has considerable experience in planning and delivering audits. Neil will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit. He is a member of the Institute of Chartered Accountants of Scotland.

**54.** The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

# The Scottish Prison Service

## Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or

[subscribe to our email alerts.](#)



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