

# Standards Commission for Scotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Standards Commission for Scotland and the Auditor General for Scotland

22 July 2019

## 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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# Key messages

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## 2018/19 annual report and accounts

- 1** The financial statements of the Standards Commission for Scotland (SCfS) give a true and fair view of the body's state of affairs as at 31 March 2019 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.
- 2** The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
- 3** The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## Financial sustainability and the governance statement

- 4** We concluded that SCfS has appropriate and effective financial planning arrangements in place.
- 5** We have no concerns about the overall financial position of SCfS.
- 6** We concluded that the information in the governance statement complies with the guidance issued by Scottish Ministers.

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# Introduction

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1. This report summarises the findings from our 2018/19 audit of the SCfS.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 21 January 2019 meeting of the Audit and Risk Committee. This report comprises the findings from:
  - an audit of the SCfS's annual report and accounts
  - consideration of the of SCfS's financial sustainability and the appropriateness of the governance statement.
3. Our standard audit approach is to consider the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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4. The Code of Audit Practice includes provisions relating to the audit of small audited 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.
5. As highlighted in our 2018/19 Annual Audit Plan, due to the low volume and the lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2018/19 audit of the SCfS.

## Adding value through the audit

6. We add value to the SCfS through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides
- Providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, and financial sustainability.

7. In so doing, we aim to help SCfS promote improved standards of governance and transparency.

## Responsibilities and reporting

8. The SCfS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. The SCfS annual report and accounts includes the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report, Remuneration and Staff Report and Parliamentary Accountability Report)
- Financial statements and supporting notes.

9. The SCfS is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

10. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK .

11. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on SCfS's financial sustainability and the appropriateness of the disclosures in the governance statement.

12. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

13. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

14. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £2,690 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

- 15.** This report is addressed to both the SCfS and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.
- 16.** We would like to thank all management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual report and accounts



### Main judgements

**The financial statements of the SCFS give a true and fair view of the body's state of affairs as at 31 March 2019 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.**

**The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.**

**The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.**

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

### Audit opinions on the annual report and accounts

- 17.** The annual report and accounts for the year ended 31 March 2019 were approved by the board on 29 July 2019. We reported within the independent auditor's report that:
- the financial statements give a true and fair view and were properly prepared
  - expenditure and income were regular and in accordance with applicable enactments and guidance issued by Scottish Ministers
  - the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.
- 18.** Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

### Submission of annual report and accounts for audit

- 19.** We received the unaudited annual report and accounts on 5 June 2019 in line with our agreed audit timetable.
- 20.** The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

## Risk of material misstatement

21. Appendix 1 provides a description of those assessed risks of material misstatement at the planning stage and summarises the work we have done to gain assurance over the outcome of these risks.
22. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

## Materiality

23. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.
24. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.
25. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained unchanged.

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## Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£5,000
Performance materiality	£4,500
Reporting threshold	£250

Source: SCfS 2018/19 Annual Audit Plan 2018/19

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## Significant findings from the audit in accordance with ISA 260

26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.
27. There were no material adjustments to the unaudited financial statements arising from our audit.

## Qualitative aspects of the audit

28. We have no significant findings to report around the qualitative aspects (e.g. accounting policies, accounting estimates/judgements, significant f/s disclosures, impact of uncertainties etc) of the 2018/19 accounting practices.

## How we evaluate misstatements

29. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the

correction lies with those charged with governance considering advice from senior officers and materiality.

- 30.** There were no material adjustments to the unaudited annual report and accounts arising from our audit.

# Part 2

## Financial sustainability and governance statement



### Main judgements

**The SCfS has appropriate and effective financial planning arrangements in place based on its Strategic Plan.**

**We concluded that the information in the governance statement complies with the guidance issued by the Scottish Ministers.**

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Financial performance in 2018/19

31. The main financial objective for the SCfS is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Parliamentary Corporate Body. The SCfS had an underspend of £3,000 on a budget of £262,000 in 2018/19.
32. The original 2018/19 budget proposed for SCfS was £264,000. However, SCfS agreed to use the services of a shared Data Protection Officer provided by the SPCB at nil cost. In light of this a reduction of £2,000 was made and the final budget agreed at £262,000.

### Short term financial planning

33. The SCfS receives funding on a cash basis from the overall budget of the SPCB.
34. The SCfS submitted its 2019/20 draft budget in August 2018 with a resource allocation request of £267,000. This was approved by the SPCB representing an increase of £3,000 (1.1%) on the 2018/19 budget.
35. Funding from the SPCB is the SCfS's sole source of income and there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the main focus for the SCfS is achieving a balanced financial plan to remain within their annual allocation.

### Medium to long term financial planning

36. The SCfS has a Strategic plan covering 2016-2020 which includes a high level financial plan covering the period based on the assumed level of funding and estimated costs against each of its strategic objectives until 2019/20. It also produces an annual business plan which outlines the work being undertaken in the year to meet its strategic aims.
37. The SCfS is in the process of developing and consulting on a new Strategic Plan covering the period 2020 to 2024. This will allow SCfS to identify the most

effective ways of improving and promoting the ethical standards framework. This will drive future spending plans for 2020 to 2024 and these will be articulated in the new Strategic Plan.

38. The SCfS has adequate financial planning arrangements in place.

### Governance statement

39. Our review of the governance statement assessed the assurances which are provided by the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the SCfS's system of internal control which operated in the financial year.

40. We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

### Performance report

41. In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of the performance report included in the annual report and accounts. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of a body's performance and, is essential in helping stakeholders understand the financial statements.

42. Audit Scotland has produced [Good practice note on improving the quality of central government report and accounts](#) (February 2019). The note identifies a number of characteristics of financial reporting which make for a high quality performance report, these are detailed in Exhibit 3 below.

## Exhibit 3

<b>Characteristics of a high quality performance report</b>	<p>A single story</p> <p>How funding was used</p> <p>What worries board members</p> <p>Consistency</p> <p>Cut the clutter</p> <p>Clarity</p> <p>Summarise</p> <p>Explain change</p>	<p>These characteristics are based on those used by the Financial Reporting Council adapted for the public sector context</p>
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43. We have reviewed the performance report and made some suggestions to help improve the quality of this year's report. However, we consider that, going forward, there is further scope for developing the SCfS's performance reporting within the annual report and accounts.

44. We are aware, that SCfS also has a requirement to separately report on performance under paragraph 10F to schedule 1 of the Ethical Standards in Public Life etc. (Scotland) Act 2000. We will engage with the SCfS during 2019/20 and prior to the preparation of next year's annual report and accounts to seek a format of performance reporting that meets the requirements of the FReM and the Act in a proportionate and effective manner.



# Appendix 1

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Management override of controls (example)</b></p> <p>As stated in International Standard on Auditing 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Use exact wording from AAP</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>Our audit procedures did not uncover evidence of management override of controls..</p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice and Practice Note 10 extend the assumptions within ISA240 to the risk of fraud over expenditure.</p> <p>The risk of fraud over expenditure applies to the SCfS due to the low degree of segregation of duties..</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on expenditure streams.</li> <li>• Detailed testing of expenditure transactions.</li> </ul>	<p>Our audit procedures did not uncover evidence of fraud over expenditure.</p>

# Appendix 2

## Summary of national performance reports 2018/19

		 <b>2018/19 Reports</b>	
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

### Central Government relevant reports

[Scottish Fire and Rescue Service: an update](#) – May 2018

[Scotland's colleges 2018](#) – June 2018

[The National Fraud Initiative in Scotland 2016/17](#) – July 2018

[Forth Replacement Crossing](#) – August 2018

[Major project and procurement lessons](#) – August 2018

[Superfast broadband for Scotland: further progress update](#) – September 2018

# Standards Commission for Scotland

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