

Scottish Public Services Ombudsman

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Public Services Ombudsman

March 2023

Contents

Introduction	3
Financial statements audit planning	5
Wider Scope and Best Value	9
Reporting arrangements, timetable, and audit fee	11
Other matters	14
Appendix 1. Your audit team	16

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of the Scottish Public Services Ombudsman (SPSO). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and financial statements, leading to an independent audit opinion
- independent audit opinions on regularity and other statutory information published within the annual report and financial statements including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the wider scope area financial sustainability.

Audit Appointment

2. We are pleased to be appointed as the external auditor of SPSO 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 your 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 audit work continues to be focused on risk.

Adding value

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

Respective responsibilities of the auditor and SPSO

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and SPSO. 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 for financial sustainability in place at SPSO. In doing this we aim to support improvement and accountability.

The Scottish Public Service Ombudsman's responsibilities

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

10. SPSO 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 financial statements are an essential part of demonstrating SPSO'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 highlighting 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. The materiality values for SPSO are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for the SPSO

Materiality	Amount
Planning materiality – 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 SPSO's operations. For the year ended 31 March 2023 we have set our materiality at 1.8% of gross expenditure based on the audited financial statements for 2021/22.	£110,000
Performance materiality – 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 73% of planning materiality.	£81,000

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. £6,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of SPSO, 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 progress of 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 risk of material misstatement to the financial statements. This is a risk which has 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 risk of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's</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"> Assess the design and implementation of controls over journal entry processing. 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. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments during the period. Evaluate significant transactions outside the normal course of business.

Significant risk of material misstatement	Sources of assurance	Planned audit response
ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

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, SPSO's other income streams fall below the performance materiality threshold and we have concluded 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 SPSO can be readily forecast based on a predictable pattern of spend and 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 area of audit focus

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

24. The area of specific audit focus is:

- **IFRS 16 implementation**

The expected impact of the implementation of IFRS is not expected to be material, however Operating Leases' closing balance was £1.78 million in the 2021/22 annual statements.

This is the first year of the implementation of IFRS 16. There is consequently a risk that disclosures in the financial statements may be incorrect.

Wider Scope and Best Value

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. However, paragraphs 83 and 85 to 86 of the [Code of Audit Practice](#) address a more limited audit of wider-scope areas for any public bodies that are less complex owing to their size and limited financial activity (referred to as Less Complex Bodies).

27. Paragraph 27 of the [Supplementary Guidance](#) sets out the quantitative criteria that defines a less complex body. SPSO's gross revenue, gross assets gross liabilities do not breach the criteria level (£10.2m). In addition, there are no qualitative reasons that would preclude the less complex approach to be taken. In light of this we plan to apply the Less Complex Body approach of the Code to the 2022/23 audit of SPSO.

28. In summary, the wider scope areas for less complex bodies covers the following:

- **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 short term (up to two years), medium term (two to five years) and longer term (longer than five years).
- **Governance Statement Review** – this will be carried out as part of our audit of the financial statements. We will express our opinion in the Independent Auditors Report.

Wider scope risk

29. We have identified one 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>1. Financial Sustainability</p> <p>The current economic and financial climate alongside a growing workload for SPSO could result in expenditure exceeding funding. Medium term financial planning would help address any longer term financial challenges.</p>	<ul style="list-style-type: none"> • Policies. • Monthly finance management reports. • Quarterly finance papers to the leadership team. • Finance papers issued to AAB. • In-year contingency funding request and approvals. 	<ul style="list-style-type: none"> • Review arrangements in place to manage financial position. • Review any progress made in developing financially sustainable plans in the medium and longer term. • Review any forecasts/budgeting work for future years for both financial and workforce planning

Source: Audit Scotland

30. 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 cyber security.

Cyber Security

31. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they 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 SPSO's arrangements for managing and mitigating cyber security risks.

Duty of 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 SPSO.

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.

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 the SPSO, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the SPSO 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. We aim to issue the independent auditor's report by 13 September 2023.

Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	21/03/2023	28/03/2023
Independent Auditor's Report	13/09/2023	22/09/2023
Annual Audit Report	13/09/2023	22/09/2023



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](#) that has been discussed with management.

38. 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 unaudited annual report and accounts with complete working papers package.	10 th July 2023
Latest date for final clearance meeting with the Director of Finance (or equivalent)	28 th July 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	4 th September 2023
Agreement of audited and unsigned annual report and accounts	13 th September 2023
Issue of Annual Audit Report to those charged with governance.	22 nd September 2023
Signed Independent Auditor's Report	22 nd September 2023

Source: Audit Scotland

Audit fee

39. In determining the audit fee, we have taken account of the risk exposure of SPSO and the planned management assurances in place. The proposed audit fee for 2022/23 is £24,690 as set out in Exhibit 6.

40. Our fees have increased in 2022/23 to reflect the current audit market and 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	30,890

Fee component	Fees (£)
Pooled costs	-490
Contribution to Audit Scotland costs	880
Sectoral Cap Adjustment	-6,590
Total 2022/23 fee	24,690

Source: Audit Scotland

41. In setting the fee for 2022/23 we have assumed that SPSO 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.

Other matters

Internal audit

42. It is the responsibility of SPSO to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

43. 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

44. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

45. 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.

46. The appointed auditor for SPSO is Tommy Yule, 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 SPSO.

Audit Quality

47. 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.

48. 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.

49. 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.

50. 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.

51. 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. Your audit team

52. The audit team involved in the audit of SPSO have significant experience in public sector audit.

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 to deliver the audit. He is a member of the Institute of Chartered Accountants of Scotland.
Hector Stalker Graduate Trainee Auditor	Hector has experience in carrying out audit work and will work alongside the Senior Auditor to deliver the audit. He is currently studying to become a member of the Institute of Chartered Accountants of Scotland.

53. 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 Public Services Ombudsman

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

For the latest news follow us on social media or [subscribe to our email alerts.](#)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
