1

Introduction
Introduction

1. This document summarises the work plan for our 2016/17 external audit of the Scottish Prison Service (“the SPS”).

2. The core elements of our work include:
   - an audit of the 2016/17 financial statements and related matters;
   - an interim audit, taking into consideration the work of internal audit, on accounting systems and corporate governance arrangements;
   - a review of arrangements pertaining to wider scope areas for governance and transparency, financial management, financial sustainability and value for money; and
   - any other work requested by Audit Scotland, for example, completion of local impact returns or targeted follow-up work.

Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of Scottish Parliament. The Auditor General is independent and not subject to the control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of most public bodies in Scotland outside the local government and higher education sectors and reporting on their financial health and performance.

4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.

5. The Auditor General has appointed Scott-Moncrieff as external auditor of the SPS for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2016/17 and summarises:
   - the responsibilities of Scott-Moncrieff as the external auditor;
   - our audit strategy;
   - our planned audit work and how we will approach it;
   - our proposed audit outputs, timetable and fees; and
   - background to Scott-Moncrieff and the audit team.

Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the SPS through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the SPS promote improved standards of governance, better management and decision making and more effective use of resources.

7. Any comments you may have on the service we provide would be greatly appreciated at any time. Full contact details for your audit team can be found in Appendix 1.

8. While this plan is addressed to the SPS, it will be published on Audit Scotland’s website www.audit-scotland.gov.uk.
Responsibilities of Scott-Moncrieff
Responsibilities of Scott-Moncrieff

Code of Audit Practice

9. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

10. A new Code of Audit Practice was published in 2016 and applies to external audits for financial years starting on or after 1 April 2016. This Code replaces the previous one issued in 2011.

Auditor responsibilities

11. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

12. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

### Exhibit 1: Audit dimensions of wider scope public audit

<table>
<thead>
<tr>
<th>Audit area</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial sustainability</strong></td>
<td>Financial sustainability looks forward to the medium (two to five years) and the longer term (over five years) to consider whether the body is planning effectively to allow it to continue to fulfil its functions in an affordable and sustainable manner.</td>
</tr>
<tr>
<td><strong>Financial management</strong></td>
<td>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</td>
</tr>
<tr>
<td><strong>Governance and transparency</strong></td>
<td>Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.</td>
</tr>
<tr>
<td><strong>Value for money</strong></td>
<td>Value for money is concerned with using resources effectively and continually improving services.</td>
</tr>
</tbody>
</table>
3 Audit strategy
Audit strategy

Risk-based audit approach

13. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the SPS.

14. This approach ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

<table>
<thead>
<tr>
<th>Discussions with senior officers at the SPS</th>
<th>Our understanding of the justice sector and its key priorities and risks</th>
<th>Guidance from Audit Scotland</th>
<th>Discussions with Audit Scotland and other justice sector auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discussions with internal audit and reviews of its plans and reports</td>
<td>Review of the SPS’s corporate strategies and plans</td>
<td>Review of the SPS’s corporate risk register</td>
<td>Consideration of the work of other inspection bodies, including HMIPS</td>
</tr>
</tbody>
</table>

15. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

Communications with those charged with governance

16. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the SPS that these communications will be through the Risk Management & Audit Committee (“the RMAC”).

Professional standards and guidance

17. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK and Ireland) (ISAs), the International Standard on Quality Control 1 (UK and Ireland), Ethical Standards, and applicable Practice Notes and other guidance issued by the Auditing Practices Board (APB).

Partnership working

18. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

19. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

20. Audit Scotland issues general and sector specific planning guidance summarising all areas we are expected to cover. We have applied the draft planning guidance in developing this external audit plan.

Internal audit

21. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the SPS’s total audit resource. The SPS’s internal audit function is provided by the AAU.
22. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the SPS is used efficiently and effectively.

Other inspection bodies

23. We plan to contribute to the ‘whole organisation’ approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. Where relevant, we will review the results of the work of other inspectorates, such as HMIPS, in relation to performance and may monitor progress with implementation of action plans resulting from these reviews.
Annual accounts
Annual accounts

Introduction

24. Audited bodies’ annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the SPS’s annual accounts.

Approach to audit of annual accounts

25. Our opinion on the annual accounts will be based on:

Risk-based audit planning

26. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

An audit of key systems and internal controls

27. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.

28. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the SPS’s own policies and procedures.

29. Wherever possible, we will look to integrate internal audit’s reviews of systems and controls with our own work. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

A final audit of the annual accounts

30. During our final audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.

31. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the FReM.

32. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with statute and SPFM requirements.

Independent auditor’s report

33. Our opinion on the true and fair view of the annual accounts and the regularity of transactions will be set out in our independent auditor’s report which will be included within the annual accounts.

34. In line with the Companies Act 2006 requirements that apply in the private sector, we are also required to give an opinion on the remuneration report, annual governance statement and performance report.

Materiality

35. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

36. Our initial assessment of materiality for the annual accounts is £3.23million, being 1% of the SPS’s annual gross expenditure which is believed to be one of the principal considerations for users of the accounts when assessing financial performance. We will review our assessment of materiality throughout our audit.
37. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

<table>
<thead>
<tr>
<th>Area risk assessment</th>
<th>Weighting</th>
<th>Performance materiality</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>40%</td>
<td>£1.292million</td>
</tr>
<tr>
<td>Medium</td>
<td>50%</td>
<td>£1.615million</td>
</tr>
<tr>
<td>Low</td>
<td>70%</td>
<td>£2.261million</td>
</tr>
</tbody>
</table>

38. We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of 2% of the overall materiality figure (i.e. over £64,600); and
- Other misstatements below the 2% threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the annual accounts

39. Auditing standards require that we inform the RMAC of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the RMAC if our assessment changes significantly during the audit.

Exhibit 2 – Key audit risks in the annual accounts

1. Estates valuation

As at 31 March 2016, the SPS held property, plant and equipment with a carrying value of £1,093,096,000. The scale of the current estate, the continuing developments to the women’s estate and the ongoing capital investment programme all create complexities and potential risks to the valuation of the assets as recorded within the annual accounts.

40. We will obtain and review the work of the District Valuer to determine whether valuations, impairment and/or impairment reversals have been correctly recognised within the annual accounts as at 31 March 2017.

41. We will audit depreciation calculations on impaired assets to satisfy that depreciation has been correctly performed and incorporated within the annual accounts.

42. We will ensure that assets have been valued in accordance with the SPS’s accounting policies and that these policies are appropriate, consistently applied and FReM compliant.

43. We will review any further decisions announced by the Scottish Government and the SPS regarding the closure of HMP Cornton Vale and the implications on the women’s estates to ensure that valuations appropriately address these developments.

44. We will review all Board minutes to ensure that any matters within in respect of the estate have been considered in the year-end valuation of assets. In addition, we will follow up on SPS’s progress in determining a long-term strategy for the overall capital investment programme.
Exhibit 2 – Key audit risks in the annual accounts

2. Timetable

In accordance with Audit Scotland timetable, the certification deadline for central government bodies’ annual report and accounts is 30 September 2017.

As in previous years, SPS has again elected to work towards a pre-recess certification. Our proposed accounts production and audit timetable is set out in the ‘Audit outputs, timetable and fees’ section of this report. The final audit fieldwork is due to commence in early May and accounts to be provided during w/c 15 May. The RMAC is scheduled for the last week in June, providing a window of less than five weeks to complete the audit of the draft annual report and accounts and agree our annual report to enable papers to be issued one week in advance of the RMAC. This is an extremely tight turnaround and close monitoring of progress will be imperative.

45. It is imperative that the draft annual report and accounts presented for audit are complete and have undergone a thorough management review to ensure subsequent changes required are minimal.

46. We will work closely with the SPS to ensure that appropriate planning procedures are implemented in the run-up to the accounts production and final audit and that regular communication is maintained throughout the process.

47. We will ensure that any findings from the audit are raised in a timely manner which should enable the accounts production and audit process to run as smoothly as possible and allow for the proposed timetable to be adhered to.

3. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240.

48. In response to this risk we will review the SPS’s accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

4. Revenue recognition

Under ISA 240 - The auditor’s responsibilities relating to fraud in an audit of financial statements there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the SPS could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

49. At this stage of our audit cycle, we do not believe the risk of fraud in revenue recognition is material to the annual accounts and have therefore rebutted this risk. We will however continue to review this position throughout the audit.

50. Our work on income will include an evaluation of each type of revenue transaction and review the controls in place over revenue accounting. We will consider the SPS’s key revenue transactions and streams and carry out testing to confirm that the SPS’s revenue recognition policy is appropriate and has been applied consistently throughout the year.
5

Wider scope audit
Wider scope audit

Introduction

51. The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions; financial sustainability, financial management, governance and transparency and value for money. At the outset we will consider the SPS’s self-evaluation arrangements as they relate to these four dimensions.

52. At this stage of our audit planning process, we have not identified any significant risks to the wider scope of our audit. Audit planning however is a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our annual audit report.

Exhibit 3 - Wider scope audit

Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether the SPS is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.

<table>
<thead>
<tr>
<th>SPS responsibilities</th>
<th>Our audit approach</th>
</tr>
</thead>
</table>
| The SPS is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:  
  - Such financial monitoring and reporting arrangements as may be specified;  
  - Compliance with any statutory financial requirements and achievement of financial targets;  
  - Balances and reserves, including strategies about levels and their future use;  
  - How the organisation plans to deal with uncertainty in the medium and long term; and  
  - The impact of planned future policies and foreseeable developments on the financial position. | During our 2016/17 audit we will consider the SPS’s financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the SPS’s operations and use of resources. |

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

<table>
<thead>
<tr>
<th>SPS responsibilities</th>
<th>Our audit approach</th>
</tr>
</thead>
</table>
| It is the SPS’s responsibility to ensure that its financial affairs are conducted in a proper manner. Management is responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.  
  The SPS is responsible for developing and implementing | During our 2016/17 audit we will review, conclude and report on the following:  
  - Whether the SPS has arrangements in place to ensure systems of internal control are operating effectively;  
  - Whether the SPS can demonstrate the |
### Exhibit 3 - Wider scope audit

**Effective systems of internal control** as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal. SPS’s responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

- Effectiveness of its budgetary control system in communicating accurate and timely performance;
- How the SPS has assured itself that its financial capacity and skills are appropriate;
- Whether the SPS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and
- The SPS’s participation and progress in the National Fraud Initiative.

**Governance and transparency:** 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.

<table>
<thead>
<tr>
<th>SPS responsibilities</th>
<th>Our audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>The SPS, through its Chief Executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The SPS should involve those charged with governance in monitoring these arrangements. The SPS is also responsible for establishing effective and appropriate internal audit and risk management functions.</td>
<td>We will review the effectiveness of the SPS’s governance framework and the extent to which board and committee roles, membership and terms of reference comply with current guidance. We will consider whether the information provided to the board and committees is sufficient for members to assess the impact of decisions on resources and performance. Our work will include consideration of how risk management has been addressed within the SPS. We will also consider the SPS’s internal audit arrangements to determine their role in examining the control systems established by management.</td>
</tr>
</tbody>
</table>

**Value for money:** Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

<table>
<thead>
<tr>
<th>SPS responsibilities</th>
<th>Our audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</td>
<td>We will work with the SPS to identify and review evidence which demonstrates the achievement of value for money in the use of its resources. We will seek evidence from the SPS that outcomes are improving and there is sufficient focus on improvement and the pace of it.</td>
</tr>
</tbody>
</table>
6

Audit outputs, timetable and fees
Audit outputs, timetable and fees

<table>
<thead>
<tr>
<th>Audit output</th>
<th>Format</th>
<th>Description</th>
<th>Target month</th>
</tr>
</thead>
<tbody>
<tr>
<td>External audit plan</td>
<td>Report</td>
<td>This report sets out the scope of our audit for 2016/17.</td>
<td>November 2016 (update inclusive of audit fee – March 2017)</td>
</tr>
<tr>
<td>Interim management report</td>
<td>Report</td>
<td>This report will summarise our interim work on accounting systems and corporate governance arrangements.</td>
<td>March 2017</td>
</tr>
<tr>
<td>Independent Auditor’s Report</td>
<td>Report</td>
<td>This report will contain our opinions on the true and fair view of the annual accounts and on the regularity of transactions.</td>
<td>June 2017</td>
</tr>
<tr>
<td>Annual Report to the SPS and the Auditor General for Scotland</td>
<td>Report</td>
<td>At the conclusion of each year’s audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work under the Code of Audit Practice.</td>
<td>June 2017</td>
</tr>
</tbody>
</table>

Audit outputs

53. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate. We will endeavour to supply a draft report within three weeks of completion of the fieldwork. We will require formal management responses within two weeks of receipt of the draft report. On occasion these timescales may need to be shortened, e.g. to meet the June 2017 RMAC and certification deadlines.

54. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

55. Audit Scotland has completed a review of funding and fee setting arrangements and as a result revised its fee strategy. It now sets an expected fee for each audit carried out under appointment.

56. The expected fee assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee will be reviewed by Audit Scotland each year and adjusted if necessary based on auditors’ experience, new requirements, or significant changes to the audited body.

57. The auditor remuneration element of the fee may be varied by up to 10% above the expected level where local issues require additional work to be undertaken. In exceptional circumstances, higher still remuneration can be set with the prior agreement of Audit Scotland.

58. The proposed 2016/17 total audit fee is 4.1% above the expected fee level and 7.1 % above the total fee for the 2015/16 audit. This increase reflects:

- the need for us to conduct additional work on opening balances due to this being the first year of our appointment;
• review of the nature and value of significant contracts, with particular focus on PFI;
• review of the valuations of your estate; and
• the requirement to document and test all key financial controls in the first year of the audit appointment

| 2016/17       | £103,190

59. The audit fee will cover:
• the 2016/17 audit work and outputs described in this plan;
• attendance at all RMAC meetings;
• access to advice and information on relevant audit issues; and
• a contribution towards Audit Scotland’s costs which cover national performance audit reports, the NHS overview report, best value development, coordination of the NFI and other support costs.

60. The expected fee will be reviewed by Audit Scotland each year and adjusted if necessary based on auditors’ experience, new requirements, or significant changes to the audited body.

61. We will take account of the risk exposure of the SPS and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit.

62. We have agreed that draft accounts will be provided w/c 15 May 2017, during the course of our onsite work. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work.

63. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

Audit timetable

64. The dates for our interim and final audits have been discussed with the Head of Finance. A summary timetable, including audit outputs, is set out as follows:

- **November 2016**
  - Planning meeting for 2016/17 audit

- **November 2017**
  - Presentation of draft External Audit Plan to the RMAC

- **January - February 2017**
  - Interim audit including a review of accounting systems and corporate governance arrangements

- **March 2017**
  - Presentation of our report on the interim audit to the RMAC

- **May 2017**
  - Accounts presented for audit and final audit visit begins

- **June 2017**
  - Presentation of our Annual Report on the Audit to the RMAC

1 The total audit fee in 2015/16 was £96,390. Only information related to the total fee is available for 2015/16.
6 Appendices
Appendix 1: Your audit management team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 18 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

Your core audit team

<table>
<thead>
<tr>
<th></th>
<th>Edinburgh</th>
<th>Glasgow</th>
<th>Inverness</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exchange Place 3 Semple Street Edinburgh EH3 8BL</td>
<td>25 Bothwell Street Glasgow G2 6NL</td>
<td>10 Ardross Street Inverness IV3 5NS</td>
</tr>
<tr>
<td></td>
<td>(0131) 473 3500</td>
<td>(0141) 567 4500</td>
<td>(01463) 701 940</td>
</tr>
</tbody>
</table>

Gary Devlin
Audit Partner
Gary.devlin@scott-moncrieff.com

Gary is Head of the Firm’s Public Sector Practice and has over 20 years’ experience in undertaking audit work across a wide range of public sector organisations. Gary will have overall responsibility for the delivery of the assignment.

Matt Swann
Senior Manager
Matthew.swann@scott-moncrieff.com

Matt is a Senior Manager within our Public Sector Practice and has nearly ten years of experience delivering of public sector audit. Matt will support Gary in the delivery of this assignment and be a key point of contact in addressing technical matters.

Stacey Larkin
Assistant Manager
Stacey.larkin@scott-moncrieff.com

Stacey has recently joined our public sector team, having trained at Grant Thornton. Stacey will be the primary fieldwork contact for this assignment and will be responsible for working closely with Kirstie and reporting to Matt.

Kirstie MacDonald
Senior
Kirstie.macdonald@scott-moncrieff.com

Kirstie has been part of our public sector external audit team since she started with the Firm four years ago. Kirstie will be responsible for the delivery of the onsite work.
Confirmation of independence

ISA 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we will comply with APB Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the SPS, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

We have recently been asked by SPS to undertake some non-audit work to test the robustness of the organisation’s business case for prison officer reform and wider organisational reform. We have confirmed with both Audit Scotland and the firm’s ethics partner, that this work does not impact on our independence as external auditors.
Appendix 2: Statement of understanding

Introduction
The purpose of this Statement of understanding is to clarify the terms of our appointment and the key responsibilities of the SPS and Scott-Moncrieff.

Annual accounts
We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant SPS staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

Scope of audit
As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the SPS’s responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the SPS during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Chief Executive.

Internal audit
It is the responsibility of the SPS to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

Fraud and irregularity
In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Ethics
We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

Fees
We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

Service
If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Gary Devlin. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.
We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

**Reports**

During the course of the audit we will produce reports detailing the results and conclusions from our work. We will endeavour to supply a draft report within three weeks of the completion of the fieldwork of each element of work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer. Management responses should be prepared and provided to us within two weeks of the receipt of the draft report.

These timescales may need to be truncated, e.g. to meet June 2017 RMAC reporting deadline.

**Agreement of terms**

We shall be grateful if the RMAC would consider and note this Statement of Understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.