



**Scott-Moncrieff**  
business advisers and accountants

# Scottish Prison Service

External Audit Plan  
2017/18

**February 2018**

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# Introduction

# Introduction

## Overview

1. This document summarises the work plan for our 2017/18 external audit of the Scottish Prison Service (“SPS”).
2. The core elements of our work include:
  - an audit of the 2017/18 financial statements;
  - an interim audit, taking account of the work of internal audit, of accounting systems and corporate governance.
  - a review of arrangements as they relate to the four dimensions of wider-scope public audit: 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 any 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 sector, including central government bodies in Scotland, and reporting on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General for Scotland 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 SPS for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2017/18 and summarises:
  - the responsibilities of Scott-Moncrieff as external auditors;
  - our audit strategy;

- our planned audit work and how we will approach it;
- our proposed audit outputs, timetable and fee; 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 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 SPS promote improved standards of governance, better management and decision making and more effective use of resources.
7. In our audit work to date, in addition to providing the assurances expected of external audit, we have supported and added value to the SPS through a number of business case reviews, advice and support in relation to governance improvement, and close working with internal audit on an ongoing investigation.
8. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX).
9. While this plan is addressed to SPS, it will be published on Audit Scotland’s website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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## **Respective responsibilities of the auditor and SPS**

# Respective responsibilities of the auditor and SPS

## Auditor responsibilities

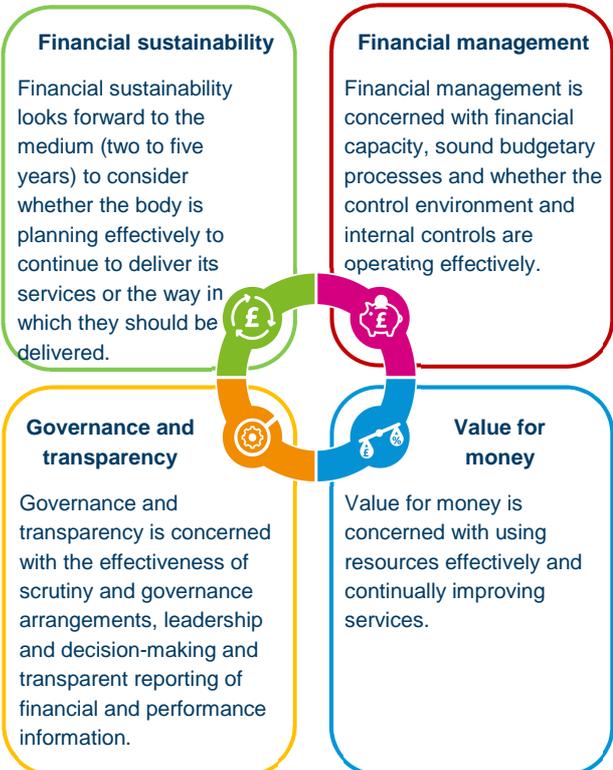
### Code of Audit Practice

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

### Our responsibilities

11. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 13). These are to:
- undertake statutory duties, and comply with professional engagement and ethical standards
  - provide an opinion on audited bodies' financial statements and,
  - where appropriate, the regularity of transactions
  - review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
  - notify the Auditor General when circumstances indicate that a statutory report may be required
  - demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
    - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
    - suitability and effectiveness of corporate governance arrangements
    - financial position and arrangements for securing financial sustainability

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



12. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

### Wider scope audit work

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

14. 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.

15. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and

- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

16. Our assessment takes into account the size, nature and risks of SPS. Taking these factors into consideration, we have concluded that we will apply the full wider scope review to SPS.

## SPS's responsibilities

17. 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 successfully deliver their objectives. SPS's responsibilities are summarised in Exhibit 2.

### Exhibit 2 – SPS's responsibilities

Area	SPS's responsibilities
<p><b>Financial statements:</b> SPS must prepare an annual report and accounts containing financial statements and other related reports.</p>	<p>SPS has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority</li> <li>• maintaining proper accounting records</li> <li>• preparing and publishing, along with their financial statements, a performance report and accountability report that are consistent with the disclosures made in the financial statements.</li> </ul>

## Exhibit 2 – SPS’s responsibilities

Area	SPS’s responsibilities
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether SPS is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.</p>	<p>SPS is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>It is 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.</p> <p>SPS is responsible for developing and implementing 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.</p> <p>It is 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.</p>
<p><b>Governance and transparency:</b> 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.</p>	<p>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. SPS should involve those charged with governance in monitoring these arrangements.</p> <p>SPS is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>

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### Exhibit 2 – SPS’s responsibilities

Area	SPS’s responsibilities
<p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>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.</p>

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# Audit strategy

# Audit strategy

## Risk-based audit approach

18. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to SPS. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

Discussions with senior officers	Discussions with non-executive members	Attendance at the Risk Monitoring and Audit Committee	Our understanding of the justice sector and its key priorities and risks	Guidance from Audit Scotland
Consideration of the work other inspection bodies, including HMIPS	Discussions with Audit Scotland and other justice sector auditors.	Discussions with internal audit and reviews of their plans and reports	Review of SPS's corporate strategies and plans	Review of the SPS's corporate risk register

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

## Communications with those charged with governance

20. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with SPS that these communications will be through the Risk Monitoring and Audit Committee (RMAC).

## Professional standards and guidance

21. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK) (ISAs), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council.

## Partnership working

22. 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

23. 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.

24. Audit Scotland undertakes national performance audits on issues affecting SPS. We will review SPS's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We plan to assess the extent to which SPS uses the national performance reports as a means to help improve performance at the local level.

25. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

### Internal audit

26. We are committed to avoiding duplication of audit effort and ensuring an efficient use of SPS's total audit resource. 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 available to SPS is used efficiently and effectively.

### Other inspection bodies

27. We plan to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. Other than the work of internal audit and Audit Scotland, we will review the 2017/18 findings of Her Majesty's Inspectorate of Prisons for Scotland (HMIPS), to ensure performance related issues relevant to our audit are identified.
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# Annual report and accounts

# Annual report and accounts

## Introduction

- 28.** Audited bodies' annual report and 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 SPS's annual report and accounts.
- 29.** The annual report and accounts of SPS comprise the financial statements, the performance report and the accountability report.

## Approach to audit of the financial statements

- 30.** Our opinion on the financial statements will be based on:

### Risk-based audit planning

- 31.** 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 financial statements will be based.

### An audit of key systems and internal controls

- 32.** We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
- 33.** 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.
- 34.** We will take cognisance of any relevant internal audit reviews of systems and controls.
- 35.** We will update the risk assessment following our evaluation of systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.

### A final audit of the financial statements

- 36.** During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on the risk assessment.

- 37.** Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement, comply with the HM Treasury Financial Reporting Manual 2017-18 and give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder.

- 38.** 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 guidance issued by Scottish Ministers.

### Independent auditor's report

- 39.** Our opinion on the truth and fairness of the financial statements and the regularity of transactions will be set out in our independent auditor's report which will be included within the financial statements.

### Materiality

- 40.** Materiality is an expression of the relative significance of a matter in the context of the financial statements 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.
- 41.** Our initial assessment of materiality for the financial statements is £4.964million, approximately 1.5% of the SPS's expenditure. Achieving budget through the application of both income and funding is a key target for SPS and one of the principal considerations for the users of the accounts when assessing financial performance. We will review our assessment of materiality throughout our audit.
- 42.** 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.

43. 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 over £99,000; and
  - Other misstatements below the £99,000 threshold that we believe warrant reporting on qualitative grounds.

Area risk assessment	Weighting	Performance materiality
High	40%	£1.985million
Medium	50%	£2.482million
Low	60%	£2.978million

## Key audit risks in the financial statements

44. Auditing standards require that we inform the RMAC of our assessment of the risk of material misstatement in the financial statements. 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.

### 1. 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 financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 – The auditor’s responsibilities relating to fraud in an audit of financial statements.



45. In response to this risk we will review 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.

### 2. Revenue Recognition

Under ISA (UK) 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 in a way that materially misstates financial performance.



46. As part of our planning process we have considered the nature of the revenue streams of the SPS against the risk factors set out in ISA (UK) 240. We have identified that for Scottish Government grant funding the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature.
47. We have concluded, however, the risk of material misstatement from fraudulent revenue recognition is present for sales income, general income and prisoner canteen income which are aggregately material in value. We will review the controls in place over revenue accounting. We will consider SPS’s key revenue transactions and carry out testing to confirm that the revenue recognition policy is appropriate and has been applied consistently throughout the year. We will continue to monitor our assessment of fraudulent revenue recognition throughout the audit.

### 3. Expenditure Recognition

The FRC published Practice Note 10 which applies to the audit of financial statements for periods commencing after June 2016. The Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.



48. In response to this risk we will evaluate the significant expenditure streams at SPS (excluding payroll which is not deemed to be a significant risk area) and review the controls in place over accounting for expenditure. We will consider SPS's key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

### 4. Estates Valuation

As at March 2017, the SPS held property, plant and equipment with a carrying value of £1.072 billion.

The scale of the current estate, continuing developments to the women's estate and the on-going capital investment programme create complexities and potential risks to the valuation of the assets as recorded within the annual accounts.



49. We will review the estate assets valuations and ensure SPS have completed a recent assessment for impairment. We will ensure assets are held in line with the FReM and SPS' accounting policies.
50. We will review developments and decisions announced by the Scottish Government and the SPS regarding HMP Cornton Vale and the implications on the women's strategy, to ensure that asset recognition and valuation are appropriate. We will review developments in relation to HMP Highland and HMP Glasgow, to ensure any 2017/18 costs incurred have been appropriately recognised.
51. We will review all Advisory 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.

### The performance report, accountability report and other information

52. The HM Treasury Government Financial Reporting Manual 2017-18 sets out the content required within the annual report and accounts. In addition to presenting our opinions over the financial statements our independent auditor's report will also presents our opinion on other aspects of the annual report and accounts:

#### Other information

53. "Other information" in the annual report and accounts comprises any information other than the financial statements and out independent auditor's report thereon. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

54. We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our independent auditor's report

#### The performance report

55. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It contains two sections:
- an overview of the organisation, its purpose, the key risks to the achievement

of its objectives and how it has performed during the year; and

- a detailed performance summary of how the entity measures its performance.

**56.** Our independent auditor's report will confirm whether in our opinion the performance report has been properly prepared and is consistent with the financial statements.

#### **The accountability report**

**57.** The accountability report is required in order to meet key parliamentary accountability requirements. It has three sections:

- A corporate governance report (including a governance statement) explaining the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives.
- A remuneration and staff report setting out staff numbers and costs as well as the entity's remuneration policy for directors and the remuneration awarded to directors.
- A parliamentary accountability report disclosing the regularity of expenditure and other parliamentary accountability requirements.

**58.** Our independent auditor's report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff report have been properly prepared and are consistent with the financial statements.

**5**

# Wider scope audit

# Wider scope audit

## Introduction

- 59. 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 management; financial sustainability; governance and transparency; and value for money.
- 60. We are committed to using the wider dimensions to target and provide assurance throughout our period of appointment. As with our financial statements audit, our wider scope audit approach is focused on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting audit risks relation to each of the four dimensions of wider scope public sector audit.
- 61. We issued six recommendations from our 2016/17 wider scope audit, as reported within our 2016/17 audit report. We will conduct a follow up review to ensure the recommendations have been appropriately actioned as part of our interim audit work, and report findings within our Interim Update Report.
- 62. At this stage of our audit planning process, we have identified six significant risks to the wider scope dimension of our audit, as detailed below:



### Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the organisation’s planning processes support the future delivery of services.

SPS responsibilities	Our audit approach
<p>SPS is responsible for putting in place proper arrangements to ensure their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Financial monitoring and reporting arrangements.</li> <li>• Compliance with financial requirements and targets.</li> <li>• The use of balances and reserves.</li> <li>• Plans to deal with uncertainty in the medium and long term.</li> <li>• The impact of planned policies and foreseeable developments.</li> </ul>	<p>During our 2017/18 audit we will consider 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.</p> <p>It is important that such arrangements are adequate in order to properly control SPS’s operations and use of resources.</p>

## Significant audit risk 5: Increasing Financial Pressure

The removal of the public sector pay cap in 2018 and Brexit uncertainty will see a rising financial sustainability risk across the public sector.

The Prison Officer Professionalisation Programme (POPP) is expected to result in a significant operational restructure within SPS in the medium to longer term. With no indication of movement within budgets to compensate, SPS's focus on medium to longer term financial sustainability is vital.

It is also necessary for SPS to consider the potential effects of the removal of the public sector pay cap and Brexit uncertainty, in order to manage any potential risk as part of its longer term financial planning.



- 63.** During our audit we will continue to review the progress of POPP and ensure that a longer term financial strategy adequately considers the potential effects of the public sector pay cap removal and Brexit uncertainty. We will determine whether or not SPS are taking the necessary steps to manage increased financial pressures.



### Financial management

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

SPS responsibilities	Our audit approach
<p>It is SPS's responsibility to ensure that its financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>SPS is responsible for developing and implementing 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.</p> <p>It is SPS's responsibility to establish arrangements to prevent and detect fraud and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct</p>	<p>During our 2017/18 audit we will review, conclude and report on the following:</p> <ul style="list-style-type: none"> <li>• Whether SPS has arrangements in place to ensure systems of internal control are operating effectively;</li> <li>• Whether SPS can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance;</li> <li>• How SPS has assured itself that its financial capacity and skills are appropriate;</li> <li>• Whether SPS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and</li> <li>• SPS's participation and progress in the National Fraud Initiative.</li> </ul> <p>Our work will include consideration of how risk management has been addressed within SPS. We will also consider SPS's internal audit arrangements to determine their role in examining the control systems centrally and locally, as established by management.</p>

## Significant audit risk 6: Financial Management

Our 2016/17 wider scope audit raised an observation that SPS's 13 Finance Managers are directly accountable to the operations directorate of SPS; however the HQ Finance Directorate is accountable to the Chief Executive Office. Internal Audit identified 'limited assurance' financial health check reviews at establishment level in 2016/17, indicating weak internal controls at establishment level.

We recommended that in conjunction with movement in the governance structure in alignment with the new 2017-2020 SPS Corporate Plan, SPS should consider the suitability of finance professionals along with training and development needs. Also, SPS should also consider if the current accountability structure of the Establishment Finance Managers to the Operations Directorate is most effective.

For 2017/18, there remains a significant risk of ineffective financial management at establishment level.



64.

During our audit we will follow up on our prior year audit recommendations, to identify developments in governance structure and internal control effectiveness at establishment level. We will review the findings of the 2017/18 establishment financial health checks conducted by internal audit, to identify if improvements have materialised to a stronger establishment level control environment.



### 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.**

SPS responsibilities	Our audit approach
<p>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. SPS should involve those charged with governance in monitoring these arrangements.</p> <p>SPS is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>	<p>We will review the effectiveness of SPS's governance framework and the extent to which the arrangements and management of the SPS Board and committees comply with relevant good practice guidance.</p> <p>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.</p> <p>Our work will include consideration of how risk management has been addressed within SPS. We will also consider SPS's internal audit arrangements to determine their role in examining the control systems established by management.</p>

## Significant risk 7: Compliance with Public Sector Internal Audit Standards (PSIAS)

Under PSIAS, SPS are required to have their internal audit function independently reviewed on a cyclical 5 year basis. At the time of our 2017/18 audit planning, SPS have not yet received an independent review of their internal audit function. There is therefore a significant risk surrounding compliance with PSIAS and the SPS are required to be compliant by May 2018.



65. During our audit we will follow up on the status of internal audits independent review, to ensure compliance with PSIAS will be achieved by May 2018.

## Significant risk 8: Compliance with Internal Governance Framework Policies

During our 2017/18 audit panning and attendance at RMAC's, we noted that the RMAC has not been quorate on two occasions in 2017/18. There is therefore a significant risk SPS are breaching internal governance framework policies.



66. During our audit we will review SPS's governance framework policies, and committee terms of references, to conclude on the reasonableness of set quorate levels. We will review RMAC minutes to ensure an appropriate and compliant decision making response was taken in the instance of a non-quorate committee.



### Value for money

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

SPS responsibilities	Our audit approach
<p>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.</p>	<p>During our 2017/18 audit we will work with SPS to identify and review evidence which demonstrates the achievement of value for money in the use of resources. We will continue to monitor the progression of the Prisoner Officer Professionalisation Programme (POPP). We will seek evidence from SPS that outcomes are improving and there is sufficient focus on continuous improvement and the pace and sustainability of that improvement.</p>

## Significant audit risk 9: Contract Management

In 2017/18, internal audit identified weak contract management controls through an error in relation to the SPS's painting contract. At the time of audit planning, the financial error in relation to the contract has not yet been quantified. Due to the identified control weaknesses and resulting financial error, there is a significant risk of further contract management control weaknesses in relation to other SPS contracts, potentially resulting in poor value for money.



67. During our audit we will conduct a walkthrough of contract management key controls within SPS, to determine design effectiveness. We will conduct compliance testing on a sample of contracts to determine the operating effectiveness of key controls. This will allow us to determine if SPS have appropriate operating contract management controls in place, to ensure value for money is achieved.

### Significant audit risk 10: The Ageing Prison Population and Social Care Needs

The prison population in Scotland continues to age, resulting in an increased demand for social care services within establishments. The cost of providing appropriate social care services to the ageing population has continued to increase significantly over the past 5 years, creating increased financial pressure for SPS. There is therefore a significant risk that value for money may not be optimised from current social care provision arrangements.



68. During our audit we will conduct an analysis of social care costs across establishments to quantify the increased demand for social care services. We will review the SPS's social care contract, and examine performance to determine if optimal value for money is being achieved from existing delivery arrangements.

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# Audit outputs, timetable and fees

# Audit outputs, timetable and fees

Audit output	Format	Description	Target date
External audit plan	Report	This report sets out the scope of our audit for 2017/18.	February/March 2018
Interim management report	Report	This report will summarise our interim work on accounting systems and corporate governance arrangements.	April/May 2018
Independent Auditor's Report	Report	This report will contain our opinions on the truth and fairness of the annual accounts and on the regularity of transactions.	June 2018
Annual Report to members and the Auditor General for Scotland	Report	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 on the use of resources, annual accounts and governance arrangements.	June 2018

## Audit outputs

**69.** 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 require formal management responses within two weeks of receipt of the draft report. On occasion these timescales may need to be shortened to meet RMAC deadlines.

**70.** 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.

**71.** Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the audit body has:

- sound governance arrangements in place and operating effectively throughout the year;
- prepares comprehensive and accurate unaudited accounts; and
- meets agreed timetable for the audit.

**72.** The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors experience, new requirements, or significant change to the audited body.

**73.** Audit Scotland advises that fees must be agreed between the auditor and each audited body. Through the fee agreement process 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. For 2017/18 we propose setting the audit fee at 3% higher than the expected level, due to the contract management controls work we are performing in year, as set out at paragraph 67. The proposed fee is set out in the table opposite. There is no fee change from the 2016/17 audit.

## Audit fee

Composition of the audit fee	
Auditor remuneration - Scott-Moncrieff	£80,000
Pooled costs – Audit Scotland (AS)	£18,920
Audit support costs - AS	£4,270
<b>Total audit fee</b>	<b>£103,190</b>

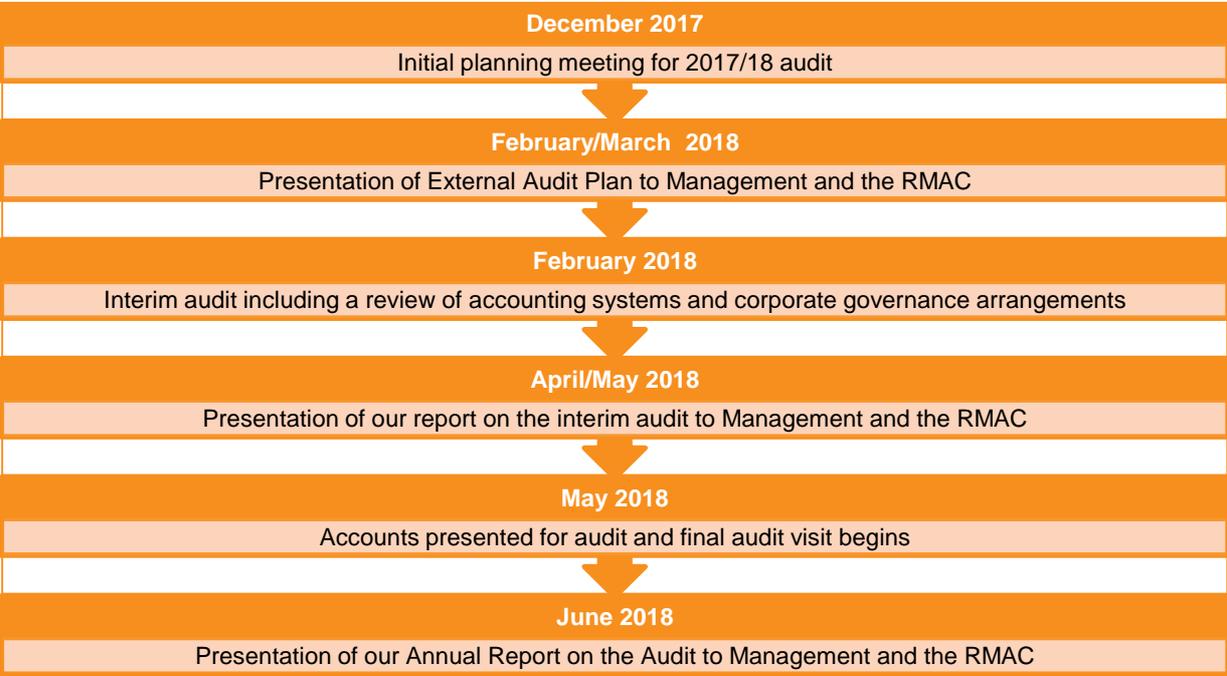
74. The audit fee will cover:

- The 2017/18 audit work 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 pooled costs.

75. We assume receipt of the draft working papers at the outset of our on-site final audit visit. 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. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

**Audit timetable**

76. The dates for our interim and final audits have been discussed with the SPS finance team. A summary timetable, including audit outputs, is set out below:



# 7

## Appendices

# Appendix 1: Your audit team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 17 partners and 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	Scott-Moncrieff 10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

## Extensive public sector audit experience

We have been external auditors within the public sector for at least fifty years, initially in local government. 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 audit team

	<p><b>Gary Devlin, Audit Partner</b>  <a href="mailto:Gary.devlin@scott-moncrieff.com">Gary.devlin@scott-moncrieff.com</a></p> <p>Gary is the Partner responsible for all aspects our audit of SPS as well our other external and internal audit appointments in the criminal justice sector. Gary has over 20 years' experience in providing audit, assurance and advisory services to a wide range of public sector clients, with over 15 years acting as an Engagement Lead for appointments through Audit Scotland. He brings with him significant central government external audit experience. Gary is always available to provide advice and support to members and officers of SPS.</p>
	<p><b>Matt Swann, Senior Manager</b>  <a href="mailto:Matt.swann@scott-moncrieff.com">Matt.swann@scott-moncrieff.com</a></p> <p>Matt is a Senior Manager within our Public Sector Practise and has nearly ten years of experience delivering public sector audits. Matt will support Gary in the delivery of this assignment and be a key point of contact in addressing technical matters.</p>
	<p><b>Stacey Larkin, Assistant Manager</b>  <a href="mailto:Stacey.larkin@scott-moncrieff.com">Stacey.larkin@scott-moncrieff.com</a></p> <p>Stacey is an Assistant Manager within our Public Sector Practise and has over 4 years of experience delivering public sector audits. Stacey will be the primary fieldwork contact for this assignment and will be responsible for reporting to Matt and Gary.</p>

## Confirmation of independence

ISA (UK) 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 FRC's Revised Ethical Standard (June 2016). 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 Advisory Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

# 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.

## Internal audit

It is the responsibility of the SPS to establish adequate internal audit arrangements. The audit fee is agreed on the basis that a satisfactory internal audit function exists on which we may be able to place reliance.

We will liaise with internal audit to ensure an efficient audit process. However, an additional fee may be charged if reliance cannot be placed on the work of internal audit due to deficiencies in the scope or quality of internal audit work.

## Financial statements

We will require the financial statements 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 (i.e. 30 October). 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. 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.

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 financial statements. This will take place by means of a letter of representation, which will require to be signed by the Chief Executive.

## Fraud and irregularity

In order to discharge our responsibilities regarding fraud we require any fraud 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 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 (bernadette.higgins@scott-moncrieff.com). 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.

As stated within the Code, management should prepare an action plan summarising their response to the recommendations in the reports. The action plan should include 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 RMAC reporting deadline.

## Agreement of terms

We shall be grateful if the SPS's 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.



**Scott-Moncrieff**  
business advisers and accountants