

Scottish Parliamentary Corporate Body

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

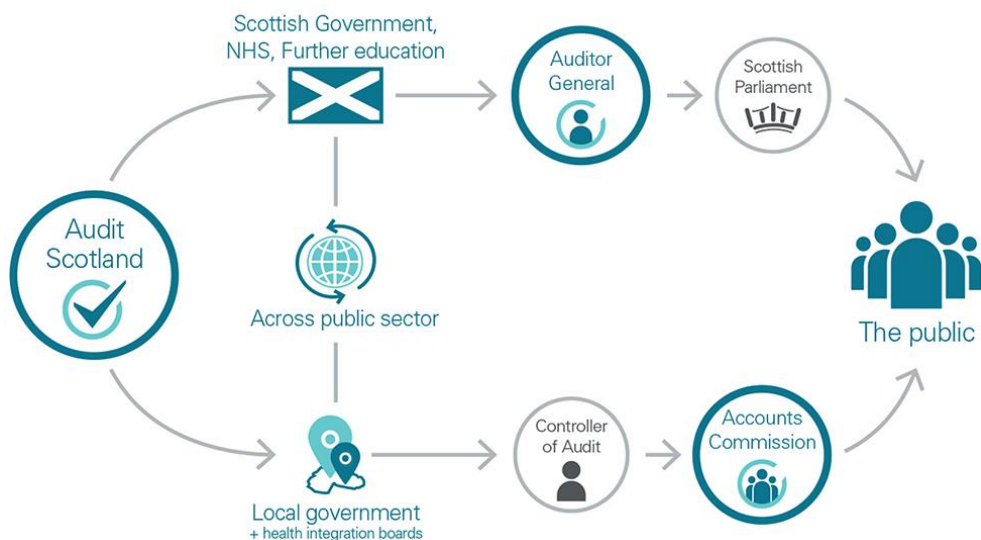
Prepared for the Scottish Parliamentary Corporate Body
December 2019



Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


Adding value


3. We aim to add value to the Scottish Parliamentary Corporate Body (SPCB) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Scottish Parliamentary Corporate Body, where appropriate, promote improved standards of governance, better management and decision making and more effective use of resources.


Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for the Scottish Parliamentary Corporate Body. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</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"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.

	Audit Risk	Source of assurance	Planned audit work
2	<p>Risk of material misstatement caused by fraud in expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) and the Code of Audit Practice require consideration of the risk of fraud over expenditure. The extent and nature of expenditure incurred by the SPCB in providing support to members means that there is an inherent risk of fraud; we will carry out audit procedures to address this risk.</p>	<p>Effective budget monitoring by management.</p> <p>Experienced and professional management.</p> <p>Regular monitoring of National Fraud Initiative outcomes.</p> <p>A comprehensive programme of internal audits which is agreed by the AAB</p>	<ul style="list-style-type: none"> Analytical procedures over expenditure streams. Detailed testing of expenditure transactions focusing on areas of greatest risk. Review and reperformance of internal audit work on members' expenses.
3	<p>Estimation and Judgements - Valuation</p> <p>There is a significant degree of subjectivity in the measurement and valuation of non-current assets. The value of the Parliament building is being reviewed during 2019/20 and subjectivity in the method of measurement and the resulting valuation represents an increased risk of material misstatement.</p>	<p>Experienced, qualified valuer engaged to provide valuation.</p>	<ul style="list-style-type: none"> Review of the instructions to valuer and consideration of their appropriateness. Completion of 'review of the work of an expert' audit programme for the relevant professional valuer. Review of SPCB's procedures for review of valuers work. Review of accounting policies to ensure they are reasonable and appropriately applied.
4	<p>Estimation and Judgements - Pensions</p> <p>There is a degree of subjectivity in the actuarial valuation of Pension fund assets and liabilities. The use of assumptions in the actuarial valuation of the assets and liabilities of the Scottish Parliamentary Pension Scheme could represent an increased risk of material misstatement.</p>	<p>Experienced, qualified actuary engaged to provide actuarial valuation.</p>	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' audit programme for the Government Actuary Department (GAD). Review of accounting policies to ensure they are reasonable and appropriately applied.
Wider dimension risks			
4	<p>EU withdrawal</p> <p>There continues to be uncertainty about the UK's withdrawal from the European Union. During a period of change and uncertainty such as this, it is important to ensure that arrangements put in place remain adequate and appropriate. There is a</p>	<p>The Constitutional Issues Board has been meeting with increased frequency to monitor the implications for the Scottish Parliament of the UK's withdrawal from the EU and other constitutional matters. Recent work has</p>	<ul style="list-style-type: none"> Assessment of SPCB's continuing preparation for the impact of EU withdrawal. Review of the work of the Constitutional

	Audit Risk	Source of assurance	Planned audit work
	risk that SPCB lacks the capacity to ensure that members are provided relevant support during the transition period.	included reviewing the ongoing impact on staff resources, reviewing “no deal” preparations and impacts and considering the implications of a future transition period. This analysis was reflected in the SPCB's budget submissions for 2019-20 and 2020-21 and will be kept under review to ensure the Parliament is able to meet the additional demands resulting from the process of withdrawal from the EU.	Issues Board in considering and managing the possible impact of EU withdrawal.

5 Financial management

Risk of fraud in the procurement function

SPCB has a procurement function that contributes to the delivery of the strategic and delivery plans of the Scottish Parliament. We will assess the arrangements for the prevention and detection of fraud and corruption in the SPCB's procurement arrangements as part of our audit work during 2019/20.

Fully qualified or nearly qualified purchasers involved in the procurement processes.

Counter fraud and fraud awareness training delivered to staff involved in the procurement process.

- Review of controls around the procurement process ensuring that they are adequately followed and enforced.
- Assessment of the effectiveness of SPCB's arrangements for the prevention and detection of fraud and corruption within procurement.

Source: Audit Scotland

5. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risks of material misstatement caused by fraud in income recognition in 2019/20 because the SPCB's operating income is expected to be below our materiality level (£0.809m 2018/19).

6. Public sector bodies should be able to demonstrate how they are fulfilling the general equality duty under the Equality Act 2010. During 2019/20, as part of our wider dimension work around Governance and Transparency, we will be reviewing SPCB's arrangements for ensuring that it is meeting the principles of fairness and equality in carrying out its business.

Reporting arrangements

7. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

8. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

9. The Auditor General for Scotland will provide an independent auditor's report to Scottish Parliamentary Corporate Body and the Scottish Parliament setting out our opinions on the annual report and accounts. We will provide the Principal Accountable Officer with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2

2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	February 2020	18 December 2019
Management Report	June 2020	TBC (AAB)
Independent Auditor's Report	September 2020	TBC (AAB)
Annual Audit Report	September 2020	TBC (AAB)

Source: Audit Scotland

Audit fee

10. The proposed audit fee for the 2019/20 audit of Scottish Parliamentary Corporate Body is £73,030 (£71,610 in 2018/19). In determining the audit fee we have taken into account the risk exposure of SPCB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package by 3 July 2020.

11. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Scottish Parliamentary Corporate Body and Principal Accountable Officer

12. Audited bodies have 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.

13. The audit of the annual report and accounts does not relieve management or those charged with governance, of their responsibilities.

Appointed auditor

14. 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.

15. 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 arrangements within the audited body to manage its performance and regularity. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual report and accounts

16. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the SPCB and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how SPCB will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

17. We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of the SPCB as at 31 March 2020 and of the income and expenditure of the Body for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 FReM; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Other information in the annual report and accounts

18. We also review and report on statutory other information published within the annual accounts including the performance report, annual governance statement and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

19. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in other information.

Materiality

20. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any



characteristics



responsibilities



principal activities



risks



governance arrangements

uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

21. We calculate materiality at different levels as described below. The calculated materiality values for the SPCB are set out in [Exhibit 3](#).

Exhibit 3 Materiality values



Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019 based on the latest audited accounts.	£1.020 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£0.765 million
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. This has been calculated at 5% of planning materiality.	£50 thousand

Source: Audit Scotland

Timetable

22. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	3 July 2020
Latest date for final clearance meeting with Head of Financial Resources Group	14 August 2020
Issue of Letter of Representation and proposed independent auditor's report	TBC
Independent auditor's report signed	TBC
Issue of Annual Audit Report to those charged with governance	TBC

Internal audit

23. Internal audit is led by the Head of Internal Audit who works for the SPCB. He is supported by staff from an external provider (Grant Thornton UK LLP), who provide an agreed number of days of audit work.

24. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

25. We have concluded that internal audit operates in accordance with the main requirements of PSIAS and that we can place reliance on internal audit work during 2019/20.

Using the work of internal audit

26. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently and effectively.

27. From our initial review of internal audit plans it is our intention (subject to a review of the scope of work) to place formal reliance on internal audit work in the following areas:

- Reimbursement of Members Expenses
- Payroll

28. In terms of our wider dimension audit responsibilities, we also plan to consider other areas of internal audit work including:

- Members' Local Office Reviews
- Procurement Project Reviews
- Governance and Accountability
- Low value payments
- Corporate cards
- Contractors.

Audit dimensions

29. Our audit is based on audit dimensions that frame the wider scope of public sector audit requirements and includes consideration of financial sustainability, financial management and governance and transparency.

Financial sustainability

30. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

Financial management

31. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- whether the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how the SPCB has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

32. 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. We will review, conclude and report on:

- whether the SPCB can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Independence and objectivity

33. Auditors appointed by the Accounts Commission or Auditor General 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. 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

34. Caroline Gardner, the Auditor General for Scotland is your appointed auditor. The audit will be directed by Stephen Boyle, Audit Director. Auditing and ethical standards require the appointed auditor Caroline Gardner 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 the Scottish Parliamentary Corporate Body.

Quality control

35. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

36. 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 supporting 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 Scotland (ICAS) have been commissioned to carry out external quality reviews.

37. 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.

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