

Water Industry Commission for Scotland

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Water Industry Commission for Scotland

March 2020

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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 report and 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 Water Industry Commission for Scotland (WICS) 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 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 main risk areas for the audit of WICS. 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 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>	<p>Detailed testing of journal entries.</p> <p>Assessment of estimation methodology applied and the reasonableness of accounting estimates contained within the financial statements.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside of the normal course of business.</p>

	Audit Risk	Source of assurance	Planned audit work
2	<p>Expenditure recognition</p> <p>Most public sector bodies are net expenditure bodies. Practice Note 10 (Audit of Public Sector Bodies in the UK) states that there is a risk that misstatements may arise from fraudulent financial reporting where an audited body may manipulate results to meet externally set targets. This risk increases with the variety and extent of expenditure incurred.</p>	<p>Detailed annual budgets are prepared and approved by the Board. Financial monitoring reports are produced on a monthly basis, analysing actual expenditure compared to the agreed budget. These are presented to the Board and Audit Committee as a standing agenda item. These arrangements allow for monitoring of income and expenditure, providing explanations on any significant movements.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Detailed audit work on estimations and judgements.</p>

Wider dimension risks

3	<p>Performance management</p> <p>As per the FReM requirements, the Commission is required to include information on how performance is measured within its annual report.</p> <p>In our annual audit reports in preceding years, we noted it was not clear from the annual report and accounts narrative how WICS monitors and reports on performance and progress in delivering the core functions set out in the Corporate Plan.</p> <p>There is a risk that the performance report within the 2019/20 annual report may not fully comply with the FReM requirements.</p>	<p>The Commission has been developing formal KPIs as part of the review of the governance framework. The Board has taken steps to try and develop these and are hopeful of this being in place for the financial year beginning 1 April 2020.</p>	<p>Consideration of performance information included within the performance report in the 2019/20 annual report.</p>
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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 as WICS receives its income by way of statutory contributions paid by Scottish Water, as directed by Scottish Ministers along with income received from levies charged to licensed providers. Both the statutory contributions and levies are agreed in advance by the Scottish Government and this limits the opportunity for manipulation.

Reporting arrangements

6. 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.

7. 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.

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

9. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December.

Exhibit 2

2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	28 th February 2020	Audit and Risk Committee (ARC) - 3 rd March 2020
Proposed Independent Auditor's Report	10 th July 2020	ARC – 4 th August 2020 Board - 3 rd September 2020
Annual Audit Report	10 th July 2020	ARC – 4 th August 2020 Board - 3 rd September 2020

Source: Audit Scotland

Audit fee

10. The proposed audit fee for the 2019/20 audit of WICS is £13,340 (2019/19: £13,160). In determining the audit fee we have taken account of the risk exposure of WICS, 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 on 8 June 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

Audit and Risk Committee and 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 the Audit and Risk Committee as 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, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual report and accounts

16. The annual report and 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 WICS and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how WICS 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 the affairs of WICS as at 31 March 2020 and of its income and expenditure for the year then ended
- have been properly prepared in accordance with the financial reporting framework
- have been prepared in a form directed by Scottish Ministers in accordance with the Water Industry Act 1999, as amended by the Water Industry (Scotland) Act 2002 and the Water Services etc (Scotland) Act 2005.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual report and accounts

18. We review and report on statutory other information published within the annual report and accounts including the performance report, corporate governance report and 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 and accounts for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory 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 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 WICS 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. We have set this at 1.5% of gross expenditure for the year ended 31 March 2020 based on the latest audited accounts for 2018/19.	£62,000
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.	£47,000
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount. We have set this at 5% of planning materiality.	£2,600

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	8th June 2020
Latest date for final clearance meeting	29 th June 2020
Issue of Letter of Representation and proposed independent auditor's report	10 th July 2020
Issue of Annual Audit Report to those charged with governance	10 th July 2020
Agreement of audited unsigned annual report and accounts	14 th July 2020
Independent auditor's report signed	3 rd September 2020
Issue of Annual Audit Report to those charged with governance	3 rd September 2020

Internal audit

23. Internal audit is provided by Grant Thornton. 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.

24. We will report any significant findings to management on a timely basis.

Using the work of internal audit

25. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

26. From our initial review of internal audit plans we plan to use aspects of the work of internal audit on the review of finance which includes a review of the implementation of the new outsourced payroll provider.

Audit dimensions

27. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

28. The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In the light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2019/20 audit of WICS.

29. We will review the annual governance statement and assess the financial sustainability of WICS as part of our financial statements audit. Conclusions on these matters will be reported accordingly in our Annual Audit Report.

Independence and objectivity

30. 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.

31. The appointed auditor for WICS is Stephen O'Hagan (Senior Audit Manager). Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of WICS.

Quality control

32. 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.

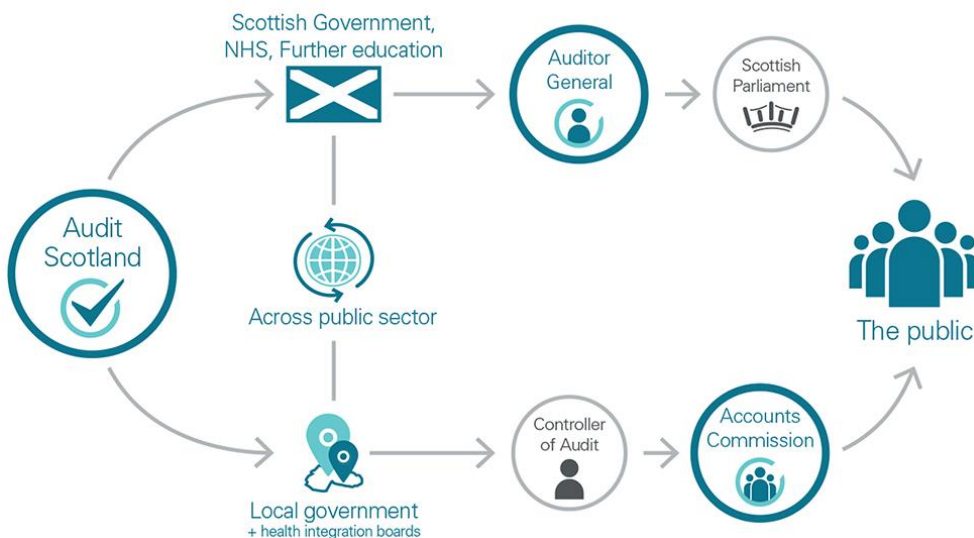
33. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that 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.

34. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Appendix 1: 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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