



# Scottish Prison Service

External Audit Annual Plan

2020/21

March 2021



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# Introduction



## Introduction

1. This document summarises the work plan for our 2020/21 external audit of the Scottish Prison Service (“SPS”).
2. The core elements of our work include audits of:
  - the 2020/21 annual report and accounts and related matters;
  - SPS’ arrangements for financial sustainability, financial management, governance and transparency and value for money;
  - SPS’ participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland.
3. performance of auditors through a quality control process.
5. The Auditor General has appointed Azets as external auditor of SPS for the six year period 2016/17 to 2021/22<sup>1</sup>. This document summarises the audit plan for 2020/21 and includes;
  - the responsibilities of Azets as the external auditor;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Azets and your Engagement Lead.

## Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, 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 with the services required to carry out his statutory functions, including monitoring the

## Auditor independence

6. International Standards on Auditing in the UK require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We comply with the Financial Reporting Council’s (FRC) Ethical Standard. In our professional judgement, the audit process is independent and our objectivity is not compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence.

<sup>1</sup> In October 2020, the Auditor General extended our audit appointment for one year through to the audit of

the 2021/22 financial year to provide continuity and stability in the current challenging environment.

## Adding value through the audit

9. All of our clients 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.

## Feedback

10. 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 any member of your audit team.

## Openness and transparency

11. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Respective responsibilities of the auditor and SPS

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## Respective responsibilities of the auditor and SPS

### Auditor responsibilities

#### Code of Audit Practice

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

perspective than in the private sector. This means providing assurance, not only on the financial statements, but on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

#### Our responsibilities

13. Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

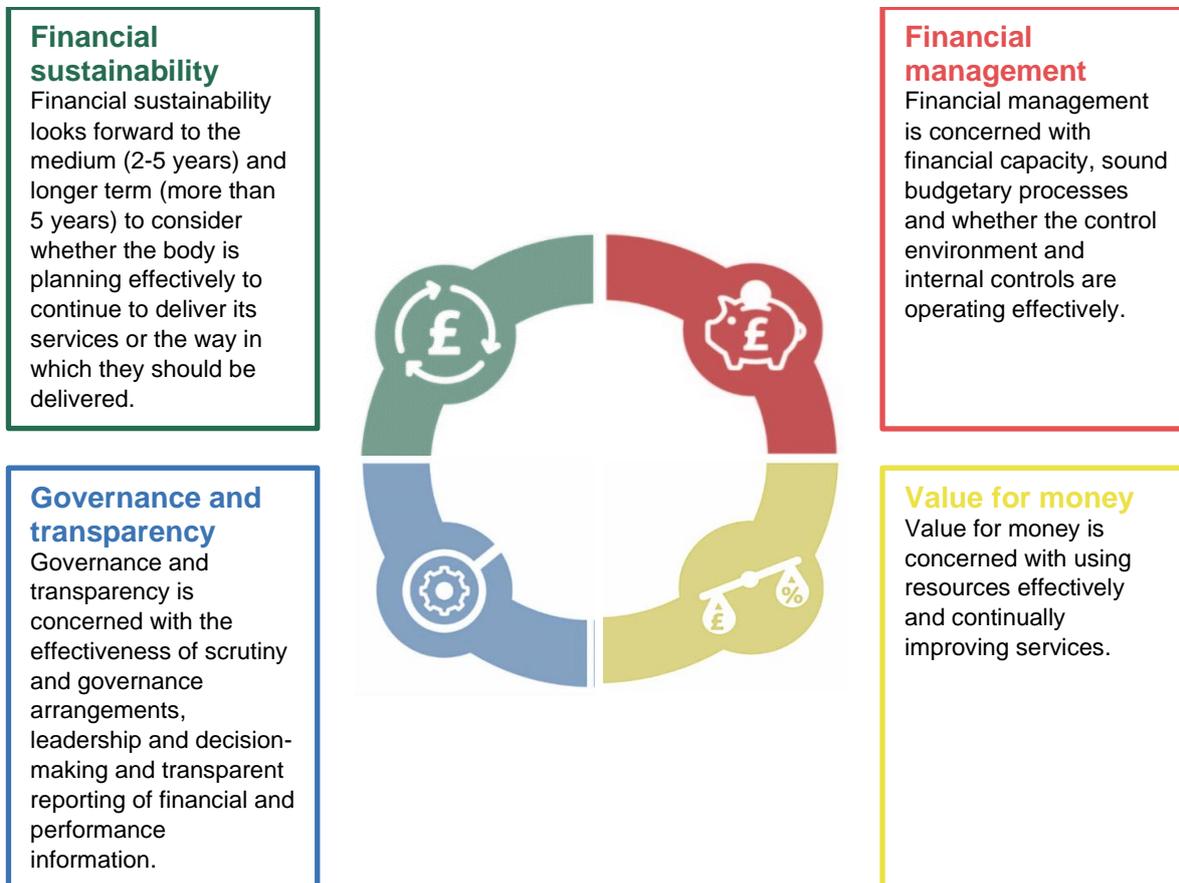
- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Auditor General when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

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

#### Wider scope audit work

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

## Exhibit 1: Audit dimensions within the Code of Audit Practice



- 16. We have concluded that application of the full wider scope is appropriate at SPS.
- 17. 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 of Audit Practice 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.

### SPS' responsibilities

- 18. SPS has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. SPS' responsibilities are summarised in Exhibit 2.

## Exhibit 2: SPS' responsibilities

Area	SPS' responsibilities
<p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</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 its 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 its 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; and</li> <li>• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements.</li> </ul>
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil 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 statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• 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>

Area	SPS' responsibilities
<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>SPS is responsible for ensuring that financial affairs are conducted in a proper manner. Management is responsible, with the oversight of those charged with governance, for communicating 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 its objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>SPS is responsible for establishing 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.</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. Those charged with governance should be involved in monitoring these arrangements.</p> <p>SPS is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<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>

# Audit strategy



## Audit strategy

### Risk-based audit approach

19. 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 and non-executive members	Our understanding of the justice sector, its key priorities and risks	Attendance at the Risk Monitoring and Audit Committee
Guidance from Audit Scotland	Discussions with Audit Scotland and central government auditors	Review of internal audit's plan and reports
Review of SPS' corporate strategies and plans	Review of SPS' risk register	Outcomes of prior year audits

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

### Communication with those charged with governance

21. 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

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

### Partnership working

23. We 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 with the public sector.

## Audit Scotland

24. Although we are independent of Audit Scotland and are responsible for forming our own views and opinion, 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 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.
25. Audit Scotland undertakes national performance audits on issues affecting the public sector. We review SPS' arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We also consider the extent to which SPS uses the national performance reports as a means to help improve performance at the local level.

## Internal Audit

26. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to SPS is used efficiently and effectively.

## COVID-19 – impact on our 2020/21 audit strategy

27. The COVID-19 pandemic has had, and continues to have, a significant and profound effect on every aspect of Scottish society.
28. We appreciate that different organisations have been impacted differently by COVID-19, as have finance teams, and some organisations are better set up for remote working. We also know that plans can change quickly and it only takes the absence of one key member of staff from a finance team to have a big impact. Equally our own teams may also be impacted by the pandemic. The wellbeing of our clients and our staff is paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance.

### Remote working

29. As we do not know when the current restrictions will end, we are planning to carry out our 2020/21 audit remotely. As in 2019/20 we have the following arrangements in place:
  - All of our people have the equipment, technology and systems to allow them to work remotely, including secure access to all necessary data and information.
  - All of our staff are fully contactable by email, phone call and video-conferencing.
  - All meetings are now held over Skype, Microsoft Teams or by telephone.
  - We are keeping all of our staff fully up to date with the latest

government guidance in order to keep everyone as safe as possible.

30. If resourcing levels in any part of our business are compromised due to illness or inability to work, we will refocus our teams as necessary to deliver to deadlines. Our teams are holding regular catch ups to allow us to re-prioritise workloads as necessary.

### Secure sharing of information

31. We use a cloud-based file sharing service that enables users to easily and securely exchange documents.

### Audit evidence

32. Working remotely, does unfortunately result in the audit team requesting audit evidence which we would have previously obtained through other means, for example, face to face meetings or access to systems and client premises.
33. Where required we will consider other ways in which we can obtain audit evidence or carry out alternative audit procedures.
34. We will employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

### Regular contact

35. During the 'fieldwork' phase of our audit, we will look to agree regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

### Audit reporting

36. It may be that the current circumstances lead to more modified opinions in auditor's reports, than would typically have been the case in previous years.
37. Where necessary, we will engage with the RMAC to explain the implications of our proposed report and consider whether there are other procedures that could be undertaken, at a future point yet to be determined, which could mitigate any modification either fully or in part.
38. Sufficient time should be set aside by the RMAC to allow for comprehensive, complete and informed communication with the auditor. This will need to take account of the potential for extended communication to explain any modified audit reports, or to report any higher than expected deficiencies or misstatements, that may result from the current circumstances.
39. Audit Scotland uses a system for electronic signatures (DocuSign) that it recommends all bodies use for signing annual accounts. Annual accounts signed electronically are acceptable for laying in Parliament.
40. Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high quality PDF version of the accounts.
41. We propose using DocuSign in 2020/21 (as was used in 2019/20).

# Annual report and accounts

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## Annual report and accounts

### Introduction

42. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of SPS' annual report and accounts.
43. The annual report and accounts comprise the financial statements, the performance report and the accountability report.
48. We will take cognisance of any relevant internal audit reviews of systems and controls.
49. Since the start of the pandemic, the risk of fraud and error has increased as the control environment and internal controls change. Potential areas of risk include:
- Public sector staff working under extreme pressure leading to some internal controls being suspended or relaxed;
  - Procurement fraud or, normal controls being relaxed to allow bodies to buy goods or services which are required urgently, possibly from new suppliers;
  - Weakened governance arrangements;
  - Admin and finance staff being redeployed to operational areas; and
  - Staff working remotely may pose potential security risks e.g. when using personal devices and/or using removable devices to download data.

### Approach to audit of the financial statements

44. Our opinion on the financial statements will be based on:

#### Risk-based audit planning

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

#### Accounting systems and internal controls

46. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements
47. 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 SPS' own policies and procedures.
50. We will update the risk assessment following our evaluation of systems and controls, considering the impact the pandemic has had on SPS' accounting systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.
51. This work is not for the purpose of expressing an opinion on the effectiveness of internal controls. We will report to SPS significant deficiencies in internal controls that we

identify during the audit. These matters will be limited to those which we conclude are of sufficient importance to merit being reported. The scope of our work is not designed to be an extensive review of all internal controls.

#### Prevention and detection of fraud or error

52. We plan our audit in such a way as to obtain reasonable assurance of detecting material misstatements in the financial statements resulting from fraud or error.
53. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
54. We will assess the susceptibility of SPS' financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:
  - making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
  - considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.
55. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be

relied upon for this purpose. Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

#### Laws and regulations

56. We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact the financial statements. Our audit procedures include the following:
  - Identification of the laws and regulations applicable to SPS through enquiries with management, and from our knowledge and experience of the organisation and sector;
  - A focus on specific laws and regulations which we consider may have a direct material effect on the financial statements or the operations of SPS;
  - Reviewing minutes of relevant meetings;
  - Enquiring of management and SPS' legal representatives the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
57. There are however inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance.

### A final audit of the financial statements

58. 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 our risk assessment.
59. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement and comply with the Government Financial Reporting Manual (FRm) and the Accounts Direction issued by Scottish Ministers.
60. 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

61. Our opinion on whether the financial statements give a true and fair view of the financial position and net expenditure and of the regularity of transactions will be set out in our independent auditor's report which will be included in the annual report and accounts.
62. We also provide an opinion on the audited part of the remuneration report, annual governance statement and performance report.

### Materiality

63. 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. We review our assessment of materiality throughout our audit.

64. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or group 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 at significant risk of material misstatement.
65. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
66. Our initial assessment of materiality and performance materiality is set out in the following table:

**Materiality  
£million**

**Overall materiality:** Our initial assessment is based on approximately 1.8% of SPS' 2020/21 resource allocation which is considered one of the principal considerations for users of the financial statements when assessing financial performance. 6.700

**Performance materiality:** using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality. 5.025

67. We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatement with a value in excess of £250,000; and
- Other misstatements below the £250,000 threshold that we believe warrant reporting on qualitative grounds.

**Key audit risks in the financial statements**

68. 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.

### Exhibit 3 – Key audit risks in the financial statements

**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*.

69. In response to this risk we will review SPS' accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business are valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will assess whether judgements and assumptions made in determining accounting estimates as set out in the financial statements are indicative of potential bias.

### 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 SPS could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

70. In respect of funding from Scottish Government, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate this revenue stream. However, the risk of fraud in relation to revenue recognition is present in all other revenue streams. We will evaluate each material revenue stream, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.

### Risk of fraud in the recognition of expenditure

As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

71. In response to this risk we will evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing). We will consider SPS' key areas of expenditure and obtain evidence that the expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. We will review accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

**Asset valuations (significant accounting estimate)**

SPS, in accordance with its accounting policies, carries out a full revaluation of land, dwelling and other buildings at five yearly intervals. In the intervening years, both specialised and nonspecialised assets are valued on a rolling programme revaluating, on average, four establishments each year. Appropriate indices provided by the Valuer are used to restate values in the intervening years between full valuations. The valuations are carried out in accordance with the RICS Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Scottish Government.

The valuation provided by the valuer as at 31 March 2020 recognised a material uncertainty, indicating that lower confidence could be attached to the valuation than otherwise would be the case given the unprecedented impact of COVID-19 on global markets. We included an emphasis of matter paragraph in our independent auditor’s report on the 2019/20 financial statements to draw attention to this.

There is a risk of material misstatement to the financial statements relating to asset valuations.

- 72. We will consider the competence, capability and objectiveness of the external valuer in line with ISA (UK) 500 Audit Evidence. We will review the valuation report and consider the assumptions used by the external valuer against external sources of evidence. In addition we will consider the scope of the external valuers work and the information provided to the external valuer for completeness.

**Provisions (significant accounting estimate)**

SPS in its financial statements includes provisions for legal obligations in respect of, for example, staff and prisoner claims. SPS engage the services of the Scottish Government Legal Directorate, the Department of Work and Pensions and other legal firms to assist in preparing estimates of potential liabilities for staff and prisoner claims.

There is a significant degree of subjectivity in the measurement and valuation of provisions. This subjectivity represents an increased risk of misstatement in the financial statements.



- 73. We will carry focus our audit testing on provisions where values and balances are derived by valuation and estimation.

**Other risk factors**

**Impact of COVID-19 on the financial statements**

- 74. Further to the identification of significant audit risks, we also continue to monitor the impact COVID-19 could have on the financial statements. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. It is uncertain how long these challenges will persist.
- 75. We continue to monitor government and relevant announcements as they pertain to the audit and will adapt our audit approach as required.

**Inventory valuations**

- 76. In 2020, due to the impact of Covid-19, SPS were unable to perform some inventory counts. However, this was not considered to be material to the inventory valuation in the financial

statements. We continue to monitor and review the position for 2021.

- 77. As part of our audit procedures, we attend stock counts where inventory is material, unless impractical, to provide audit evidence relating to existence and condition. Should the pandemic impact on our ability to attend stock counts (where inventory is material) we will seek to perform alternative audit procedures. In the event that such procedures are not possible we will consider a limitation of scope in our audit opinion.

**Accounting estimates**

- 78. Changes to ISA (UK) 540 - Auditing Accounting Estimates and Related Disclosures which is applicable for accounting periods beginning on or after 15 December 2019 places increased regulatory requirements on the auditor in respect of the auditing of significant estimates at the planning and completion stages of the audit.

79. As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts, and accruals. Other than asset valuations and provisions for legal obligations, we have not determined the accounting estimates to be significant. We will however revisit our assessment during the fieldwork and completion stages of our audit.

#### HMP Barlinnie / HMP Glasgow

80. SPS has secured planning permission for the HMP Glasgow site (as the planned replacement build for HMP Barlinnie) and are awaiting confirmation of capital budget from Scottish Government in relation to this specific project. SPS has prioritised investment in HMP Barlinnie to ensure that the facility is improved and remains fit for purpose until HMP Glasgow can be constructed, mobilised and occupied from late 2026 onwards.

81. There is a risk that the valuation of HMP Barlinnie could be incorrectly recorded within the financial statements; depending on the development and Ministerial announcements on HMP Glasgow. We will continue to monitor this during our audit of the financial statements.

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

82. The HM Treasury Government Financial Reporting Manual 2020/21

sets out the content required within the annual report and accounts. In response to the continuing impact of COVID-19; HM Treasury has issued an addendum to the Government Financial Reporting Manual 2020-21 which sets out the minimum reporting requirements in respect of the performance report and accountability report.

83. The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.

84. Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.

85. In addition to presenting our opinions over the financial statements our independent auditor's report will also present our opinion on the other aspects of the annual report and accounts:

#### Other information

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

87. 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 by 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.

expenditure and other parliamentary accountability requirements.

90. 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.

### The performance report

88. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. 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

89. 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

# Wider scope audit



## Wider scope audit

### Introduction

91. As described in section 2, the Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions:
- financial sustainability
  - financial management
  - governance and transparency
  - value for money.
92. Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon the understanding of SPS' key priorities and risks which we developed from previous years, along with discussions with management and review of committee minutes and key strategy documents.
93. The risk profile of public bodies for the 2020/21 audits is significantly affected by the COVID-19 pandemic. The pandemic has highlighted the importance of many long-standing issues facing public sector bodies such as the need for good governance, openness and transparency, and effective longer-term planning to deliver better outcomes. The risks and challenges associated with these issues have become greater due to the pandemic.
94. In 2020/21, Audit Scotland has requested that external auditors focus on risks relating to governance and transparency, financial sustainability and counter-fraud arrangements in light of the impact of COVID-19. We will consider these risk areas in the context of our wider scope audit work and include commentary in our annual audit report as appropriate.
95. In 2019/20, the Auditor General for Scotland issued a report to Parliament under Section 22 of The Public Finance and Accountability (Scotland) Act 2000 which highlighted a range of factors which were, in combination, creating a higher financial and operational risk environment for SPS. Those factors included issues relation to the financial position, high levels of prisoner population, staffing levels, performance outcomes and the prison estate.
96. We will continue to monitor SPS' response to the report during 2020/21, taking into account the current environment which it is operating in.
97. We have not, at this stage, identified any significant risks in relation to our wider scope audit. Audit planning however is a continuous process and we will report all identified significant risks in our annual audit report. Exhibit 4 summarises our audit work in respect of each dimension.

## Exhibit 4 - Our audit approach to the wider scope audit dimensions



### 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.

Consideration	Our audit approach
<p>Planning for the 2021/22 budget has commenced. SPS has assumed / forecast a £342.2million resource budget in 2021/22.</p> <p>The on-going impact of Covid-19 creates a significant level of uncertainty both operationally and financially. The forecast has been prepared on the assumption that SPS will be operating in a COVID environment for the first 6 months of the 2021/22 financial year.</p> <p>Based on the information available to date, the most significant cost pressures for 2021/22 are:</p> <ul style="list-style-type: none"> <li>• Covid-19 additional costs;</li> <li>• Pay due to the 21-22 pay award and women’s estate recruitment;</li> <li>• Social care contract costs;</li> <li>• Absence Dismissal Cases;</li> <li>• Staff Compensation Injury Benefits;</li> <li>• Legal Case Settlements;</li> <li>• Estates Maintenance;</li> <li>• Utilities;</li> </ul>	<p>During our audit we will continue to review whether SPS has appropriate arrangements in place to manage its financial position. Our work will include an assessment of progress made in developing financially sustainable plans which reflect the medium and longer term impact of COVID-19 and that continue to support the delivery of SPS’ statutory functions and strategic objectives.</p>

**Consideration**

**Our audit approach**

- Women’s estate running costs; and
- Private Prisons and GEOamey contract inflation and projected requirement for additional prisoner places

A draft SPS Medium Term Financial Strategy (MTFS) has been prepared, however in light of COVID-19 and the evolving and changing priorities across the Scottish landscape, the content of the draft MTFS is to be refreshed and refocused.

As part of SPS’ financial budgetary planning work for 2021/22, work has commenced to begin to identify and collate cost projections to forecast spend over the next three financial years (up to March 2024). The draft MTFS will be revised to take account of these forecasts and will be produced alongside the work that SPS is carrying out on reviewing the organisation’s corporate strategy, with a view that this will be completed by the end of this financial year.

Financial sustainability remains a challenge and it is recognised that work is required to further develop the financial strategy to more accurately reflect the emerging position taking cognisance of the impact of COVID-19.



## Financial management

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

### Consideration

The Scottish Government Budget 2020/21 was agreed by the Scottish Parliament in February 2020, and provides for a SPS resource allocation of £374.4million.

The SG capital allocation for 2020-21 is £67.8million. This includes the ring-fenced element of the 2019-20 capital allocation relating to slippage in the Women’s Estate and HMP Glasgow projects of £28.8million.

As reported in December 2020 (and as at 31 October 2020), SPS is reporting a £3.6million forecast resource overspend for the 2020-21 financial year and a £15.9million underspend against its capital allocation.

£7.7million of COVID-19 related costs have been incurred as at 31 October 2020, with an estimated forecast of £12.1million for the 2020/21 financial year (resource and capital elements).

During the reporting period, SPS has progressed the delivery of major capital projects, including the commencement of construction works for the Women’s National Facility that will replace HMP YOI Cornton Vale and the award of contracts for construction of two Community Custody Units in Glasgow and Dundee, as part of the new strategy for women in custody. In addition, the planning application for HMP Glasgow has been submitted (as the

### Our audit approach

During our 2020/21 audit we will review, conclude and report on the following:

- The achievement of financial targets;
- Whether SPS can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance;
- Whether SPS has arrangements in place to ensure systems of internal control are operating effectively; and
- Whether SPS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption, with particular focus on changes in the control environment during the pandemic and fraud and corruption in the procurement function; and
- Participation and progress in the National Fraud Initiative.

**Consideration**

**Our audit approach**

planned replacement build for HMP Barlinnie) and there has been continued progress on HMP Highland (as the planned replacement of HMP Inverness). Amongst the expected benefits to SPS, these new facilities will secure investment and continued direct employment within their local as well as wider areas.

The National Fraud Initiative (NFI) is a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error. The most recent NFI exercise commenced in 2020 and as part of our 2020/21 audit we will monitor SPS' participation and progress in the NFI.



## 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.

### Consideration

SPS has experienced a number of changes in its Senior Leadership Group in the last year and this Group now consists entirely of interim appointments at Chief Executive and Director level. It is anticipated that, once the current pandemic is over, the new Senior Leadership Group will create a more stable platform to guide SPS over the next few years.

In response to COVID-19, SPS enhanced its governance by implementing interim arrangements to expedite urgent decision making. During the first period of lockdown, the frequency of meetings of the Executive Management Group and Advisory Board increased. meetings.

SPS has established a Strategic Oversight Group (SOG) and National Corona Virus Response Group (NCRG) to ensure that the pandemic is managed in line with Scottish Government and public health guidance.

### Our audit approach

We will review and report on SPS' governance arrangements; considering any changes to those arrangements in response to the pandemic. In particular we will consider whether:

- the revised governance arrangements are appropriate and operating effectively
- there is effective scrutiny, challenge and informed decision making.

We will consider SPS' risk management arrangements in the context of the pandemic. We will review:

- Arrangements and reporting of the identification, likelihood and impact of new risks as a result of the pandemic;
- Consideration of risk appetite during this period to enable services to operate effectively and respond to issues in a timely manner.
- The longer term impact of the pandemic on SPS' risk register.



## Value for money

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

### Consideration

The refreshed Corporate Plan 2019-22 was published in 2019. The Plan is designed to be delivered over a three year period whilst being flexible enough to accommodate change.

SPS corporate planning processes were temporarily suspended due to the need to focus on its response to COVID-19. SPS do not therefore intend to prepare an Annual Delivery Plan in the 'usual' way for 2020/21.

SPS has however recognised the need to plan for the future and a return to business as usual as well as taking into account the longer term implications of COVID-19 for the service.

SPS carried out a high-level assessment of the position of its Corporate Plan relative to COVID-19 and noted the following actions;

- Identified a small number of key areas of strategic activity that need to be maintained during the pandemic;
- Established a COVID-19 related decisions log for strategic review in case there are any corporate planning implications;
- Anticipated the resumption of the planning cycle through the identification of priority areas to be

### Our audit approach

The COVID-19 pandemic is expected to have had a substantial impact on performance measures, particularly for services which have been temporarily suspended, are operating at a reduced level or have had to adapt to new ways of working.

We will review performance reporting in 2020/21 to ensure it is timely, reliable, balanced, transparent and appropriate to user needs.

We will review evidence which demonstrates the achievement of value for money in the use of its resources.

We will continue to monitor SPS' response to the Section 22 report during 2020/21, taking into account the current environment which it is operating in.

Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland and the Accounts Commission. We will work with Audit Scotland during the year to understand the outputs from this work and identify any particular reports that SPS may have a direct interest in.

**Consideration**

**Our audit approach**

addressed when circumstances allow;

- Commissioned work into developing the SPS Recovery Framework. An interim Delivery Plan for 2020/21 will be prepared in line with the Recovery Framework.

The outputs of these actions will be utilised to inform future corporate and strategic planning activity.

Early Release legislation and the closure of Courts across Scotland has resulted in a reduction of prisoner numbers for a period of time. The population did change, however there was an increase in those individuals being held on remand for longer periods of time. The complexities of population management and the shifting focus of managing this, in line with health priorities, did not reduce SPS resource and there was a requirement to re-deploy staff, from areas, such as purposeful activity, which were not deemed critical, to frontline areas. The reduction in prisoner numbers also allowed SPS to maximise Single Cell Occupancy in order to mitigate the risk of transmission. This reduction moved the population towards operational capacity figures rather than remaining at the levels of over-capacity prior to the pandemic

Progress has been made in reducing sickness absence levels. Sick absence for first half of 2020/21 was 14.1 average working days lost (AWDL), a 13% reduction on 2018/19.

The impact of Covid-19 however has had a negative effect on absence levels and SPS staff continue to be affected as a result of illness, isolation, shielding or related circumstances. At its peak in April 2020, sick absence across the service was c.25%.

**Consideration**

**Our audit approach**

A new Attendance Management Policy, developed in consultation with trade unions, was published internally in March 2020. However, due to the Covid-19 pandemic, implementation has been postponed to a future date.

To maintain service delivery, SPS incurs costs in terms of voluntary, non-contractual (ex gratia) payments to officers for working increased hours to cope with absences.

Ex-gratia payments for the first 2 months of 2020/21 were higher than anticipated. However, since then, the spend on these payments has significantly reduced, with a number of contributory factors including;

- the introduction of a core day.  
The majority of establishments had moved to a single day shift within 6 weeks of the restricted regime being in place.
- the resumption of prison officer recruitment which had been paused;
- staff returning to work from COVID related absence.

An internal review of the ex-gratia payment system is underway, however, due to the reprioritisation of business in order to manage SPS' response to the pandemic, the work has not yet concluded.

# Audit outputs, timetables and fees



## Audit outputs, timetable and fee

### Audit outputs

The submission deadline for the annual accounts is set to be consistent with the administrative deadline set by the Scottish Government. The deadline for the annual accounts is 31 August. The statutory deadline for laying the accounts is 31 December.

We have set out below target months which align to SPS' 2021 schedule of RMAC meetings. We will aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues as a result of the pandemic.

Audit output	Description	Target month	Deadline for submission to Audit Scotland
External audit plan	This report sets out the scope of our audit for 2020/21.	February 2021	31 March 2021
Independent Auditor's Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and performance report.	June 2021	31 August 2021
Annual Report to SPS and the Auditor General for Scotland	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	June 2021	31 August 2021

98. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate. implementation dates. We will review progress against the action plans on a regular basis.
99. The action plans within the reports will include prioritised recommendations, responsible officers and

## Audit fee

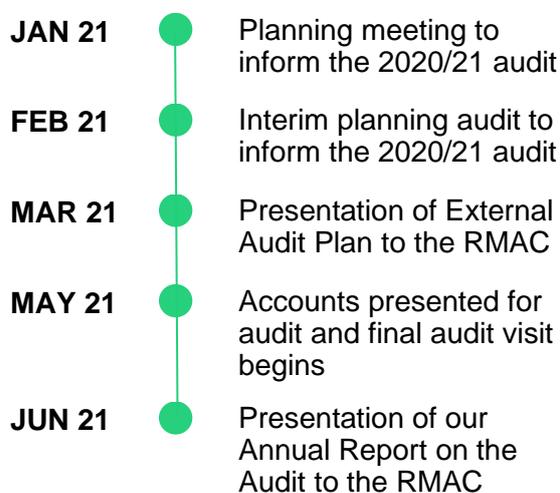
- 100. Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
- 101. Audit Scotland is not empowered to levy charges on SPS and the costs of auditing SPS are met from Parliamentary funding. Although SPS is not required to meet the resulting cash cost of the audit fee, it is required to disclose notional audit fees in the financial statements. This will count against budget cover and reflect, among other things, the standard of governance and control perceived to be in place in the body.
- 102. As auditors we negotiate a fee with SPS during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.
- 103. For 2020/21 we propose setting the audit fee above the expected fee level but consistent with the prior year.

	2020/21	2019/20
Auditor remuneration	£88,108	£88,308
Pooled costs	£21,550	£20,800
Contribution to Audit Scotland costs	£3,620	£4,170
<b>Total fee</b>	<b>£113,278</b>	<b>£113,278</b>

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

- 105. A summary timetable, including audit outputs, is set out as follows:



# Appendices



## Appendix 1: Azets

On 7 September 2020, the Cogital Group of companies (Scott-Moncrieff, Campbell Dallas, Baldwins and Wilkins Kennedy) came together as Azets. Whilst it is a new name, we still deliver the same personal approach to accounting, tax, audit, advisory and business services, digitally and locally.

With over 6,500 advisers and specialists across our office network, we help people and organisations of all shapes and sizes save time, work smarter and achieve their goals. Our job is to give you the support you need so you can focus on what you do best.

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

### Your Engagement Lead

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#### Gary Devlin

##### Audit Partner

[gary.devlin@azets.co.uk](mailto:gary.devlin@azets.co.uk)



Gary is the Partner responsible for all aspects of our audit of SPS as well as 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.

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## Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets has not been appointed by SPS to provide any non-audit services during the year.

We confirm that we comply with FRC's Ethical Standard. 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 Azets and SPS, its Advisory members and senior management that may reasonably be thought to bear on our objectivity and independence.

## Appendix 3: 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 Scottish Prison Service and Azets.

### Annual report and accounts

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

### Fees

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

### Representations

As auditors we do not act as a substitute for SPS' 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 SPS during the course of the audit on matters having a material effect on the annual report and accounts. This will take place by means of a letter of representation, which will require to be signed by the Accountable Officer.

### Internal audit

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

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

### Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

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.

## Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if he knows or suspects that any person has engaged in money laundering or terrorist financing.

We require SPS to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Gary Devlin. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants in England and Wales.

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.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

## Agreement of terms

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



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