

# Scottish Parliamentary Corporate Body

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Scottish Parliamentary Corporate Body

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# Contents

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Introduction	3
Financial statements audit planning	5
Audit dimensions	9
Reporting arrangements, timetable, and audit fee	11
Other matters	13

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Scottish Parliamentary Corporate Body (SPCB). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability and governance and transparency that frame the wider scope of public sector audit
- review SPCB's participation in the National Fraud Initiative.

## Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

4. We aim to add value to 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 will help SPCB promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Advisory Audit Board and actively participate in discussions.

## Respective responsibilities of the auditor and SPCB

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and SPCB. Key responsibilities are summarised below.

### Auditor responsibilities

6. 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.

7. 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.

### SPCB responsibilities

8. SPCB is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, SPCB has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

## Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

**12.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for SPCB are set out in [Exhibit 1](#).

## Exhibit 1 2021/22 Materiality levels for SPCB

Materiality	Amount
<b>Planning materiality</b> – 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 2022 based on the latest audited financial statements for 2020/21.	£1.09 million
<b>Performance materiality</b> – 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 assessed performance materiality at 75% of planning materiality.	£0.82 million
<b>Reporting threshold (ie clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£55 thousand

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of SPCB, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**14.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</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"> <li>• Assess the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>
<p><b>2. Estimation in the valuation of land and buildings.</b></p> <p>Land and buildings are revalued on a five-year</p>	<ul style="list-style-type: none"> <li>• We continue to rely on professional advice of an external</li> </ul>	<ul style="list-style-type: none"> <li>• Completion of 'review of the work of an expert' for the professional valuer.</li> <li>• Review the indices rates provided to SPCB to assess for appropriateness.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>rolling basis and an indexation exercise undertaken in the intervening years.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Indices are based on specialist assumptions and changes in these or errors in their application can result in material misstatements.</p> <p>Values may also change between full valuations; it is important that the financial statements accurately reflect the value of the land and buildings.</p>	<p>valuer. The next full revaluation of property is due in 2024/25. Indexation will be applied during the financial year 2021/22.</p>	<ul style="list-style-type: none"> <li>• Review the calculations for the indexations to ensure the correct indices are used and that they are appropriately applied to land and buildings.</li> <li>• Critically assess the approach SPCB has adopted to assess the risk that assets not subject to indexation are held at the appropriate value within the asset register.</li> </ul>

Source: Audit Scotland

**15.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for SPCB because the operating income received by SPCB is below our materiality level. SPCB also receives funding from the Scottish Consolidated Fund, however, due to the nature of this funding the opportunity for fraudulent recognition is limited.

**16.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have considered expenditure streams including staff and members' salaries and depreciation and consider that these items can be readily forecast based on a predictable pattern of expenditure. We have concluded that opportunity for fraudulent manipulation is deemed to be limited. The SPCB's other expenditure including MSP's expenses is made up of a high volume of low value items and therefore risk of a material misstatement is deemed to be low.

**17.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

### **Other areas of audit focus**

**18.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

**19.** The areas of specific audit focus are:

- Estimation in the valuation of pensions. There is a degree of subjectivity in the measurement and valuation of the material account area of pensions. The subjectivity in the measurement and valuation represents an increased risk of material misstatement in the financial statements.

### **Audit risk assessment process**

**20.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

# Audit dimensions

## Introduction

**21.** The [Code of Audit Practice](#) sets out the wider dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the relevant audit dimensions in audited bodies.

## Audit dimensions

**22.** Our audit is based on the audit dimensions that frame the wider scope of public sector audit requirements and includes the following dimensions:

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

## Audit dimension risks

**23.** We have identified audit risks in the areas set out in [Exhibit 3](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

## Exhibit 3

### 2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Financial sustainability</b></p> <p>The SPCB aligns their medium-term financial strategy to the parliamentary sessions.</p>	<ul style="list-style-type: none"> <li>• Our rigorous budget setting process and submission to the relevant Finance Committee includes a substantial degree of assurance on our</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to monitor the financial position throughout the year.</li> <li>• Review of the medium-term strategy, including the assumptions used, to inform our ongoing assessment of the</li> </ul>

Description of risk	Sources of assurance	Planned audit response
<p>The Session 6 Strategic Plan was developed in 2021/22. A financial strategy is required to support the delivery of strategic objectives.</p> <p>There is a risk that increasing cost pressures limit the ability of the SPCB to deliver the medium-term strategic objectives.</p>	<p>financial planning and sustainability.</p> <ul style="list-style-type: none"> <li>The Session 6 Strategic Plan was put in place in 2021/22 and the delivery plan supporting change projects will be developed early in 2022/23.</li> </ul>	<p>SPCB's medium-term financial sustainability.</p>

Source: Audit Scotland

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**24.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**25.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy.

**26.** The Auditor General for Scotland will provide an independent auditor's report to SPCB setting out his 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.

**27.** [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

## Exhibit 4 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2022	23 March 2022
Independent Auditor's Report	31 October 2022	TBC
Annual Audit Report	31 October 2022	TBC

Source: Audit Scotland

## Timetable

**28.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

**29.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

**30.** We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

## Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	11 July 2022
Latest date for final clearance meeting with the Director of Finance	2 September 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	14 September 2022
Agreement of audited and unsigned annual report and accounts and issue of Annual Audit Report to those charged with governance	14 September 2022 (AAB 21 September 2022)
Signed Independent Auditor's Report	TBC

Source: Audit Scotland

## Notional audit fee

**31.** The proposed notional audit fee for the 2021/22 audit of the SPCB is £76,380 (2020/21: £74,860). In determining the notional audit fee, we have taken account of the risk exposure of the SPCB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

**32.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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.

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# Other matters

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## Internal audit

**33.** International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**34.** From our initial review of the internal audit plans, we plan to place formal reliance on internal audit in relation to the controls review and substantive testing of MSP's expenses.

## Independence and objectivity

**35.** Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

**36.** Stephen Boyle, the Auditor General for Scotland, is your appointed auditor. The audit will be directed by Mark Taylor, Audit Director. 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 SPCB.

## Quality control

**37.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

**38.** 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.

**39.** 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.

# Scottish Parliamentary Corporate Body

## Annual Audit Plan 2021/22

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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