

# Standards Commission for Scotland

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Standards Commission for Scotland and the Auditor General for  
Scotland

July 2021

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# Key messages

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## **2020/21 annual report and accounts**

The Standards Commission for Scotland's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

Expenditure and income were incurred in accordance with applicable enactments and guidance.

## **Financial sustainability**

The SCfS reported an overspend of £4,195 against the budget in 2020/21. This related to a provision for appeal costs and it is anticipated that contingency funding will be received in 2021/22.

The SCfS has appropriate financial plans covering the period to 2023/24 which demonstrate there is appropriate resource to meet expenditure.

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# Introduction

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1. This report summarises the findings from our 2020/21 audit of the Standards Commission for Scotland (SCfS).

2. The scope of our audit was set out in our Annual Audit Plan presented to the 29 March 2021 meeting of the Standards Commission. This report comprises the findings from:

- an audit of the SCfS's annual accounts
- our consideration of financial sustainability

3. The global coronavirus pandemic has had a considerable impact on all public bodies during 2020/21 and the SCfS has adapted its processes to allow operations to continue. We did not identify any specific risks relating to the pandemic as part of our planning processes and we have not identified any emerging risks during our audit work.

## Adding value through the audit

4. We add value to the SCfS through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports (Appendix 3) and good practice guides
- providing clear conclusions on the financial statements, contents of the governance statement and financial sustainability

5. We aim to help SCfS promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

6. The SCfS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The SCfS is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016 and supplementary guidance and International Standards on Auditing in the UK.

8. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

9. The Code of Audit Practice 2016 (the Code) 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. As highlighted in our 2020/21 Annual Audit Plan, due to the lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2020/21 audit.

10. This report raises matters from our audit. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

## **Auditor Independence**

12. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £2,790 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to the SCfS and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

14. We would like to thank the management and staff for their cooperation and assistance during the audit.

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# Part 1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

The SCfS's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

Expenditure and income was incurred in accordance with applicable enactments and guidance.

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## Our audit opinions on the annual report and accounts are unmodified

15. The annual report and accounts for the year ended 31 March 2021 were approved by the Standards Commission on 26 July 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## The annual report and accounts were signed off as per the agreed timetable.

16. The unaudited annual report and accounts were received in line with our agreed audit timetable on 1 June 2021.

17. The unaudited annual report and accounts provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

## Overall materiality is £5,700

18. Our initial assessment of materiality was carried out during the planning phase of the audit. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that no changes were required to our planned levels. This summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£5,700
Performance materiality	£4,275
Reporting threshold	£285

Source: Annual Audit Plan 2020/21

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## Risks of material misstatement identified at the planning stage and our audit work to address these

19. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. [Appendix 2](#) also summarises the work we undertook to address these risks.

20. We have no issues to report from our work on the risks of material misstatement and we have gained sufficient assurance to support our audit opinions.

## Significant findings from our audit of the annual report and accounts

21. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

22. All members of the SCfS are required to disclose their interests in line with the Members' Code of Conduct. Accounting standards state that when identifying potential related parties, the interests of members close family should also be considered. There is no evidence from the register of interests that the SCfS considers the interests of members close family.

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## Recommendation 1

The SCfS should update their guidance to require members to disclose the interests of close family members as outlined by accounting standards.

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### Identified misstatements of £5,500 were adjusted in the accounts

23. Total misstatements identified were £5,500.

24. The adjustment relates to a provision for a legal ruling made prior to the year end. The settlement figure was uncertain at the time of reporting and therefore an estimated figure has been included in the accounts in line with IAS 37. We are satisfied that this is an isolated issue and does not indicate further systematic errors in the accounts.

25. Adjustments made in the audited accounts increased net expenditure in the Statement of Comprehensive Net Expenditure by £5,500 and increased net liabilities in the Statement of Financial Position by £5,500.

26. Management have adjusted all identified misstatements above our reporting threshold and there are no unadjusted errors to report.

27. We identified a small number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

### Governance statement

28. Our audit opinion considers whether the Governance Statement has been prepared in accordance with the Ethical Standards in Public Life etc. (Scotland) Act 2000 and directions made by Scottish Ministers.

29. We are satisfied that the Governance Statement for the year to 31 March 2021 has been prepared in line with applicable Acts and accounts directions and is consistent with other disclosures in the financial statements.

30. As a result of Covid-19 and the national lockdown all meetings of the Standards Commission and sub-committees were conducted in a way which did not require members to physically meet.

31. Governance arrangements have continued as normal throughout 2020/21 and there were no specific issues arising as a result of Covid-19. We are satisfied the disclosures in the governance statement appropriately reflect the impact of Covid-19.



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# Part 2. Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services

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## Main judgements

The SCfS reported an overspend of £4,195 against the budget in 2020/21. This related to a provision for appeal costs and it is anticipated that contingency funding will be received in 2021/22.

The SCfS has appropriate financial plans covering the period to 2023/24 which demonstrate there is appropriate resource to meet expenditure.

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## Financial performance in 2020/21

32. The main financial objective for the SCfS is to ensure the financial outturn for the year is within the budget agreed with the Scottish Parliamentary Corporate Body (the SPCB).

33. The approved cash budget for 2020/21 was £283,000 with an additional in year allocation of contingency funding of £19,260 in respect of legal costs associated with an appeal.

34. The SCfS reported spend of £306,455 an overspend of £4,195 against the budget. The overspend relates to an appeal against a decision made by the SCfS where the ruling was that the Hearing should not have proceeded without a respondent. The Sheriff Principal found the SCfS to be liable for the pursuer's expenses, restricted to matters concerning the decision to proceed.

35. The SCfS receives funding on a cash basis from the overall budget of the SPCB and appeals are not built into the budget. Costs relating to appeals are not predictable and therefore the SCfS is permitted to seek contingency funding for these costs as they are incurred. It is anticipated that the SPCB will provide contingency funding relating to the appeal in 2021/22 once the claim is finalised.

## Financial Planning

36. The SCfS has a Strategic Plan covering the period from 2020 to 2024 which includes a high level financial plan based on the assumed level of funding and estimated costs against each of its strategic objectives until 2023/24.

37. The SCfS produces a detailed Business Plan on an annual basis which gives further detail on the work planned and how this links to the Strategic Plan.

38. The budget for 2021/22 has been agreed with the SPCB as £290,000, an increase of 2.5 per cent from 2020/21.

39. The budgeted costs are predicted to increase by an average of 2.2 per cent in each of the subsequent years to 2023/24 with costs increasing to £303,000 in 2023/24.

40. The underlying assumptions are clearly set out in the Strategic Plan including the number of hearings remaining constant, no significant increase in members remuneration and staff numbers and grades remaining the same.

41. Any significant changes to the underlying assumptions may impact the level of funding over the medium term. The SCfS continue to liaise with the SPCB in developing their budget and seek agreement for the budget prior to the start of the financial year.

42. We are satisfied that financial planning arrangements are appropriate and proportionate given the nature of operations at the SCfS.

### **The impact of Covid-19 has been minimal**

43. The SCfS has continued to consider the impact of Covid-19 on its operations and financial position. Overall, the SCfS has continued to operate throughout the period with Hearings taking place on line.

44. There has been no additional costs incurred to date as a result of the pandemic and the SCfS do not predict significant changes to the budgeted position going forward.

### **National performance audit reports**

45. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 3](#) highlights a number of the reports published in 2020/21.

# Appendix 1. Action plan 2020/21

## 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Registers of interest</b></p> <p>Registers of interest maintained by the SCfS do not include the interests of close family members as required by IAS 24.</p> <p>Risk –The SCfS do not have a complete record of members interest and is therefore unable to identify any potential related parties.</p>	<p>The SCfS should update guidance to require close family members interests to be disclosed</p> <p><a href="#">Paragraph Error! Reference source not found.</a></p>	<p>The SCfS Members' Code of Conduct (based on the Model Code of Conduct for Members of devolved Public Bodies approved by the Scottish Parliament) does not require the registration of the interests of close family. However, the Code requires members to declare any such interests if they meet the objective test. This requirement is further reinforced in the SCfS's Guidance on the Model Code. If such an interest is declared, it is minuted and the SCfS Member in question does not take part in the discussion or decision-making on the matter (including any cases). The minutes are published on the SCfS's website and are, therefore, publicly available. Given SCfS Members do not know what cases are to be referred they would not be in a position to register, in advance, any interest a close family member may have in the matter.</p>

# Appendix 2. Significant audit risks

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion.

## Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates and judgements.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We have not identified any instances of management override from our testing.</p>
<p><b>2. Risk of material misstatement caused by fraud in expenditure</b></p> <p>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.</p> <p>We consider this risk to be the most prevalent where there is incentive and opportunity for fraudulent manipulation. We therefore focus on non-pay</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of non-pay expenditure transactions.</p> <p>Review of post year end transactions to ensure completeness.</p>	<p>We gained appropriate assurance over the completeness and occurrence of expenditure and we are satisfied that it is not fraudulently misstated in the annual accounts.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>expenditure. The risk of fraud over non-pay expenditure applies to the SCfS due to the low degree of segregation of duties.</p>		
<p><b>3. Financial capacity</b></p> <p>The SCfS has a small team of staff and there is a high reliance on key individuals. At the end of 2020/21 the Business Manager will retire. Thereafter responsibility for assisting the Executive Director with preparing the annual report and accounts will be provided by the Office Manager.</p> <p>The information contained in the financial statements will continue to be provided by an accountant based within the Scottish Parliament Finance Office</p> <p>There is an increased risk of error and non-compliance with accounting standards due to the introduction of new staff.</p>	<p>We engaged with the new Office Manager at an early stage.</p> <p>In line with our standard audit procedures we will complete a disclosure checklist for compliance with the FReM.</p>	<p>The draft Financial Statements and supporting working papers were prepared to a good standard and no issues noted.</p>

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# Appendix 3. Summary of 2020/21 national performance reports

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## April

[Affordable housing](#)

## June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

## July

[The National Fraud Initiative in Scotland 2018/19](#)

## January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

## February

[NHS in Scotland 2020](#)

## March

[Improving outcomes for young people through school education](#)

# Standards Commission for Scotland

## 2020/21 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

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



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