

Standards Commission for Scotland

2021/22 Annual Audit Report



 AUDIT SCOTLAND

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

July 2022

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Key messages

2021/22 annual report and accounts

- 1 SCfS's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2 Expenditure and income were incurred in accordance with applicable enactments and guidance.

Financial sustainability

- 3 The SCfS reported an overspend of £18 thousand against its budget in 2021/22. The overspend related to a provision for appeal costs and it is anticipated contingency funding will be provided by the Scottish Parliamentary Corporate Body in 2022/23.
- 4 The SCfS has appropriate financial planning and monitoring arrangements in place.

Governance

- 5 Disclosures in the Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.
- 6 The SCfS has appropriate governance arrangements in place that supports scrutiny of decisions made by the Standards Commission.

Introduction

1. This report summarises the findings from our 2021/22 audit of Standards Commission for Scotland (SCfS).
2. The scope of our audit was set out in our 2021/22 Annual Audit Plan presented in April to members of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of the SCfS's annual report and accounts
 - our consideration of financial sustainability.
3. The global coronavirus pandemic has had a considerable impact on all public bodies during 2021/22 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 procedures 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 1](#)) 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. 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.
7. 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.
8. 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.

9. 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.

10. 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 2021/22 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2021/22 audit.

11. 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.

Auditor Independence

12. Auditors appointed by the Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £2,860 as set out in our 2021/22 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. 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.

Audit appointment from 2022/23

15. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

16. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Audit Scotland will continue to be the appointed auditor for SCfS.

17. Although Audit Scotland remain the SCfS's external auditors, to maintain the independence and objectivity of the audit team, the engagement lead and other staff working on the audit will be changed for the 2022/23 audit. The outgoing audit team will work with officers and the new audit team to ensure a smooth transition.

18. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

19. There are a number of significant changes introduced by the new Code, namely the integration of Best Value work into wider scope audit work and the audit of Best Value across the Integration Joint Boards.

20. We would like to thank Audit and Risk Committee members, management and other staff for their co-operation and assistance over the last six years.

Part 1. Audit of 2021/22 annual report and accounts

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

Main judgements

SCfS'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.

Our audit opinions on the annual report and accounts are unmodified

21. The annual report and accounts for the year ended 31 March 2022 were approved by the Standards Commission on 25 July 2022. 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 in line with the agreed timetable

22. For 2021/22, the submission deadline for the audited annual report and accounts has been set at 31 October 2022.

23. The unaudited annual report and accounts were received in line with our agreed audit timetable on 1 June 2022. The accounts and working papers presented for audit were of a good standard and management and finance staff provided good support to the team during the audit process. This helped ensure that the final accounts audit was completed in line with the original timetable and the 2021/22 annual report and accounts were certified on 25 July 2022.

Overall materiality is £6 thousand

24. We apply the concept of materiality in both planning and performing the audit. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts.

25. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

26. We use materiality to evaluate the effect of identified misstatements and uncorrected misstatements on the audit and financial statements and when forming the opinion in the auditor's report.

27. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

28. The revised materiality levels did not require a change in our audit approach as it did not change the assessment of material account areas.

Exhibit 1 Materiality values

| Materiality level | Amount |
|-------------------------|--------|
| Overall materiality | £6,000 |
| Performance materiality | £5,000 |
| Reporting threshold | £1,000 |

Source: Audit Scotland

Significant findings from the audit of the annual report and accounts

29. 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. We have no issues to report from the audit.

30. We identified some disclosure and presentational amendments during our audit which have been reflected in the final set of accounts.

31. It is our responsibility to request that all misstatements, other than those below the reporting threshold are corrected, although the final decision on making the correction lies with those charged with governance considering

advice from senior officers and materiality. There were no misstatements above our reporting threshold identified from our audit.

32. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks from the audit of the financial statements

| Audit risk | Assurance procedure | Results and conclusions |
|---|---|---|
| <p>1. Management override of controls</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 manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> | <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</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 indication of management override in the year leading to material misstatement or significant concern.</p> <p>We have reviewed the SCfS's accounting records and obtained evidence to ensure that transactions outside normal processes were accounted for correctly.</p> <p>We have also reviewed management estimates and the journal entries posted in the period and around the year end. We did not identify any areas of bias in key judgements made by management.</p> |

Good progress was made on prior year recommendations

33. In 2020/21 we highlighted that the registers of interest maintained by the SCfS did not include disclosures in relation to the interests of close family members as required by IAS 24. There was a risk that the SCfS did not have a complete record of members interests and were therefore unable to identify any potential related parties.

34. We are satisfied that the SCfS policies and procedures have been updated to require disclosure of close family interests from 2021/22.

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

Main judgements

The SCfS reported an overspend of £18 thousand against its budget in 2021/22. The overspend related to a provision for appeal costs and it is anticipated contingency funding will be provided by the Scottish Parliamentary Corporate Body in 2022/23.

The SCfS has appropriate financial planning and monitoring arrangements in place.

The SCfS overspent against its budget in 2021/22

35. The SCfS receives funding on a cash basis from the overall budget of the Scottish Parliamentary Corporate Body (the SPCB). Funding from the SPCB is the SCfS's only source of income and is primarily driven by the legal functions of the body and the demand for hearings in each financial year.

36. The approved cash budget for 2021/22 was £302 thousand and the main financial objective is to ensure the financial outturn in year is within the budget agreed with the SPCB.

37. The Standards Commission cannot predict whether any statutory appeals will be lodged against decisions made at Hearings during the year. As such, the SPCB has agreed that the Standards Commission can apply for contingency funding if necessary.

38. The SCfS reported expenditure of £320 thousand in 2021/22 which is an overspend of £18 thousand against the budget. The overspend relates to an appeal against a decision made by the SCfS which was successful. A provision of £28 thousand was made for the reimbursement of expenses.

39. The expenditure in creating the provision was partially offset by lower than expected hearing costs as all hearings were conducted in a virtual setting. This helped mitigate the impact of the appeal and reduce the overspend.

40. It is anticipated that the SPCB will provide contingency funding relating to the appeal in 2022/23 once the claim is finalised.

Financial planning

41. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

42. The SCfS has a Strategic Plan covering 2020-2024 which includes a high-level financial plan covering the period based on the assumed level of funding and estimated costs against each of its strategic objectives until 2023/24. It also produces an annual business plan which outlines the work being undertaken in the year to meet its strategic aims.

43. The annual business plan is supported by an annual budget which is agreed with the SPCB in advance of the financial year.

44. The 2022/23 budgeted costs of £311 thousand were approved by the Standards Commission in July 2021 and submitted to the SPCB in line with the required timetable.

45. The budget proposal represents a 3 per cent increase on the 2021/22 budget. The additional funding request was to support development of the SCfS website and salary costs for a permanent caseworker.

46. The budget bid includes updated projected costs for 2023/24 and indicative figures for 2024/25 which predicts an increase in costs of 2 per cent and 3.5 per cent in each year respectively.

47. In March 2022 the SPCB informed the SCfS that the budget bid for £311 thousand had been approved.

48. The Standards Commission receive quarterly monitoring reports to their meetings and detail is sufficient to allow effective scrutiny.

Part 3. Governance and Transparency

Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

Main judgements

Disclosures in the Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.

The SCfS has appropriate governance arrangements in place that supports scrutiny of decisions made by the Standards Commission.

Disclosures in the Annual Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance

49. 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.

50. We are satisfied that the Governance Statement for the year to 31 March 2022 has been prepared in line with applicable acts and accounts directions and is consistent with other disclosures in the financial statements.

The SCfS's governance and transparency arrangements are appropriate

51. The SCfS is made up of members who are appointed by the Scottish Parliamentary Corporate Body and have corporate responsibility for ensuring that the SCfS fulfils its aims and objectives. The Standards Commission is supported by two Committees, one of which is the Audit and Risk Committee.

52. During 2021/22 Standards Commission and Committee meetings were held remotely.

53. We have reviewed the committee minutes and papers throughout the year. The papers are detailed and comprehensive to allow for effective decision making and scrutiny of performance. The Standards Commission minutes are readily accessible on the SCfS's website.

54. We attend the Audit and Risk Committee meetings, and we observed and concluded that members are engaged during meetings and provide effective scrutiny and challenge.

55. Additionally, the Chair of the Audit and Risk Committee provides a verbal update on key issues discussed at each meeting of the Standards Commission and these updates are recorded as part of the minutes.

National performance audit reports

56. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 1](#) highlights a number of the reports published in 2021/22.

Appendix 1. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Standards Commission for Scotland

2021/22 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



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