

Standards Commission for Scotland

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Standards Commission for Scotland and the Auditor General for Scotland
July 2023

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Key messages

2022/23 annual report and accounts

- 1 The key risk arising from the audit of the Standard's Commission for Scotland's (SCfS) accounts was included in our Annual Audit Plan distributed to Audit and Risk Committee members in April 2023. There are no significant matters from that work to draw to the attention of the Audit and Risk Committee.
- 2 SCfS's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 3 Expenditure and income were incurred in accordance with applicable enactments and guidance.

Financial Sustainability

- 4 The SCfS reported an underspend of £45 thousand against its budget in 2022/23. The underspend related to a lower than forecast number of Hearings held in year. SCfS also received contingency funding of £33 thousand to cover the reimbursement of legal costs relating to a successful appeal against a previous decision made by the Commission.
- 5 The SCfS has appropriate financial planning and monitoring arrangements in place to continue to deliver services.

Vision, Leadership and Governance

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

Cyber Security

- 8 SCfS's arrangements for managing and mitigating cyber security risks are provided by the Scottish Parliamentary Corporate Body (SPCB) and are appropriate, however the service level agreement requires to be updated.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of the SCfS. The scope of the audit was set out in an Annual Audit Plan distributed to Audit and Risk Committee members in April 2023. This Annual Audit Report comprises:

- significant matters arising from an audit of the SCfS's annual report and accounts
- wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability

2. 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 in due course.

Audit appointment from 2022/23

3. I, Liz Maconachie, have been appointed by the Auditor General as auditor of the SCfS for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) (the Code) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank commission members, audit committee members, the executive director and other staff, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. 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.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

7. The weaknesses or risks identified in this report 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.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £3,730 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to the SCfS by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

Part 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship public funds.

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.

Audit opinions on the annual report and are unmodified

11. The Audit and Risk Committee approved the annual report and accounts for the SCfS for the year ended 31 March 2023 on 25 July 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- 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.

Overall materiality was assessed on receipt of the annual report and accounts as £6 thousand

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and only slightly

revised, due to the underspend in 2022/23, on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£5,800
Performance materiality	£4,300
Reporting threshold	£1,000

14. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting no issues identified from planning and no history of misstatements in prior year audits of SCfS's annual report and accounts.

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

Significant findings and key audit matters

17. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the Audit and Risk Committee, including our view about the qualitative aspects of the body's accounting practices.

18. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

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

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

20. We have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. [Exhibit 2](#) sets out the

significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Identified significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the 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 override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • 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. • Detailed testing of journal entries. • Review of accounting estimates and judgements. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. 	<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>

There were no identified misstatements

21. Our audit of the annual report and accounts did not identify any misstatements.

The unaudited annual report and accounts were received in line with the agreed timetable

22. The unaudited annual report and accounts were in line with our agreed audit timetable on 01 June 2023.

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term. We also consider 'vision, leadership and governance' and cyber security arrangements in place.

Financial Sustainability

The SCfS reported an underspend of £45 thousand against its budget in 2022/23. The underspend related to a lower than forecast number of Hearings held in year. SCfS received contingency funding of £33 thousand to cover the reimbursement of legal costs relating to a successful appeal against a previous decision made by the Commission.

The SCfS has appropriate financial planning and monitoring arrangements in place to continue to deliver services.

Vision, Leadership and Governance

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.

Cyber Security

SCfS's arrangements for managing and mitigating cyber security risks are provided by the Scottish Parliamentary Corporate Body (SPCB) and are appropriate, however the service level agreement requires to be updated.

The SCfS operated within its budget for 2022/23

23. 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.

24. The initial cash budget for 2022/23 was £343 thousand, including £33 thousand for contingency funding, with £10 thousand returned in year resulting in

a final approved cash budget of £334 thousand. The main financial objective is to ensure the financial outturn in year is within the budget agreed with the SPCB.

25. 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.

26. The SCfS received contingency funding of £33 thousand in 22/23 to cover the reimbursement of legal costs relating to a successful appeal against a previous decision made by the Commission. A provision of £28 thousand was created in 2021/22 to cover the reimbursement of these expenses. An additional £5 thousand was expensed in 2022/23 to cover the higher than expected fees.

27. The SCfS reported expenditure of £289 thousand in 2022/22 which is an underspend of £45 thousand against the cash budget of £334 thousand. The underspend relates to a lower than forecast number of Hearings held in 2022/23.

Financial Planning

28. 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.

29. 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. Planning for the next Strategic Plan starts in September 2023.

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

31. The 2023/24 budgeted costs of £338 thousand were approved by the Standards Commission in July 2022 and submitted to the SPCB in line with the required timetable.

32. The budget proposal represents a 10 per cent increase on the 2022/23 budget and was driven by:

- pay awards and incremental pay increases;
- increase in location hire and hospitality costs;
- increase in member and staff travel and expenses;
- induction training costs required for two new members appointed in 2023/24; and
- increases in other running costs.

33. The budget bid includes updated projected costs for 2024/25 and indicative figures for 2025/26 which predicts an increase in costs of 2.8 percent and 2.5 per cent in each year respectively.

34. The final budget of £338 thousand for 2023/24 was approved by SPCB in February 2023.

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

Vision, Leadership and Governance

36. 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.

37. We are satisfied that the Governance Statement for the year to 31 March 2023 has been prepared in line with applicable acts and accounts directions and is consistent with other disclosures in the financial statements.

38. 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, and these meetings continue to be held remotely.

39. 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.

40. We attend the Audit and Risk Committee meetings and attended a Standards Commission meeting as an observer. We concluded that members are engaged during meetings and provide effective scrutiny and challenge.

41. 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.

42. A register of interests for the Executive Director will be created, and publicly available on the SCfS website, for the 2023/24 financial year onwards.

43. We can conclude that appropriate arrangements are in place to deliver the vision, strategy and priorities adopted by the SCfS.

Cyber Security

44. There continues to be a significant risk of cyber-attacks to public bodies and a number of recent incidents have demonstrated the significant impact they can have on both the finances and operation of an organisation. In 2022/23, we considered SCfS's arrangements for managing and mitigating cyber security risks.

45. IT services, included cyber security, are provided by the SPCB as part of a service level agreement. The agreement is dated 2015 and does not make any reference to cyber security. We also note that the section relating to business continuity is out of date. We recommend that this agreement is refreshed to ensure the agreement reflects current IT arrangements between SPCB and SCfS.

Recommendation 1

The IT service level agreement in place between SPCB and SCfS should be refreshed to ensure this reflects current services, including cyber security. This also represents an opportunity to update the Finance service level agreement as contact details and terminology should be amended.

46. In accordance with the SCfS's 2022/23 Business Plan, SCfS members and staff have completed cyber security training during 2022/23.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Service Level Agreements</p> <p>The IT service level agreement in place between SPCB and SCfS should be refreshed to ensure this reflects current services, including cyber security. This also represents an opportunity to update the Finance service level agreement as contact details and terminology should be amended.</p> <p>There is a risk that services provided by SPCB on behalf of SCfS are not suitable for its business needs.</p>	<p>SCfS and SPCB should review current service level agreements to ensure that they reflect current services provided.</p> <p>Paragraph 45.</p>	<p>SCfS will work with the SPCB to revise and agree the IT service level agreement as required.</p> <p>The responsible officer for this action is the Executive Director.</p> <p>SCfS will aim to complete this action by 31 December 2023.</p>

Standards Commission for Scotland

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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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