

Scottish Prison Service

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for the Scottish Prison Service

27 March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of the Scottish Prison Service (SPS). The main elements of our work include:

- an audit of the financial statements leading to an independent audit opinion
- audit opinions on regularity and other statutory information published within the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- an Annual Audit Report setting out our conclusions.

Respective responsibilities of the auditor and SPS

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

Auditor responsibilities

3. Our responsibilities as appointed 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.

4. 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 wider scope arrangements in place at SPS. In doing this, we aim to support improvement and accountability.

5. The appointed auditor, and engagement lead, for SPS is Michael Oliphant, Audit Director.

The Scottish Prison Service's responsibilities

6. SPS is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. It is also required to produce other reports in the annual report and accounts in accordance with statutory requirements and applicable guidance.

7. SPS 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 its objectives.

Adding value

8. We aim to add value by:

- tailoring audit work to the circumstances of SPS and the audit risks identified;
- being constructive and forward looking; providing independent conclusions;
- attending meetings of the Risk Monitoring and Audit Committee (RMAC); and
- by recommending and encouraging good practice.

In so doing, we will help SPS promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and accounts

Introduction

9. The annual report and accounts are an essential part of demonstrating SPS's stewardship of resources and its performance in the use of those resources.

10. Appointed auditors are required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

11. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

12. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance about 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 2023/24 audit

13. We assess materiality at different levels. The materiality values for SPS are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for the Scottish Prison Service

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of SPS's operations. For the year ended 31 March 2024, we have set our materiality at 1.5 per cent of gross expenditure based on the audited financial statements for 2022/23.	£6.50 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our	£4.55 million

professional judgement, we have assessed performance materiality at 70 per cent of planning materiality.

Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount. We have set this threshold at 5 per cent of planning materiality.	£325,000
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

15. 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.

16. 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 risks, management’s sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management’s sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (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"> Assess the design and implementation of controls over journal entry processing. 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. Evaluate significant transactions outside the normal course of business. Substantive testing of income and expenditure transactions around the year-

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>2. Estimation in the valuation of land and buildings.</p> <p>At 31 March 2023, SPS held land, buildings and dwellings with a net book value of £1,183 million. There is a significant degree of subjectivity in the valuation of land, buildings and dwellings. Valuations are based on specialist assumptions and estimates, and changes in these can result in material changes to valuations. This level of estimation means there is a risk of material misstatement to the financial statements relating to asset valuations.</p>	<ul style="list-style-type: none"> Independent third-party external valuation reports. 	<p>end to confirm they are accounted for in the correct financial year.</p> <ul style="list-style-type: none"> Focussed testing of accounting accruals and prepayments. Review the information provided to the external valuer to assess for completeness. Evaluate the competence, capabilities, and objectivity of the professional valuer. Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. Consider whether the valuation frequency is appropriate. Critically assess the approach SPS has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. Critically assess the adequacy of SPS disclosures regarding the assumptions in relation to the valuation of land and buildings.

Source: Audit Scotland

17. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, 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.

18. We have rebutted this risk as funding received from the Scottish Government is clearly communicated and can be readily agreed to third party confirmations. In addition, SPS's other income streams are either not material or comprise of a high volume of low valued transactions. We concluded that there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

19. 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.

20. We have rebutted this risk as the main expenditure streams of SPS can be readily forecast based on a predictable pattern of spend and mainly comprise a high volume of relatively low value items. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

21. 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

22. 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 risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

23. The areas of specific audit focus are:

- **Estimation in the valuation of provisions**

At 31 March 2023, SPS had provisions totalling £14.3 million. There is a significant degree of subjectivity in the measurement and valuation of these provisions. This subjectivity represents an increased risk of misstatement in the financial statements.

- **Ex-gratia payments**

In 2022/23, ex-gratia payments totalled £6.3 million. As part of our audit work in 2022/23, we found that there were errors in five out of the 15 claims sampled. In addition, there was very limited evidence of authorisation or approval in any of the items sampled. There is consequently a risk that ex-gratia payments are not accurately recorded.

24. As part of the annual FReM update for 2023/24, there has been a revision in the treatment of indexed linked payments in liabilities for service concession arrangements. Paragraphs 10.1.63 to 10.1.65 of the FReM requires the liability to be remeasured if there is a change in future lease payments resulting from a change in an index/rate used to determine those payments. For SPS, this will impact on the accounting treatment for HMP Addiewell. Whilst we do not believe this represents a risk of material misstatement or an area of audit focus, we will ensure that SPS has accounted for this change correctly. To do this we will carry out a review of SPS's calculation for the updated liability.

Regularity

25. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied,

in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

26. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Wider Scope and Best Value

Introduction

27. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit. This requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

28. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by SPS. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how SPS demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Significant wider scope risks

29. We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over these risks.

Exhibit 3**2023/24 wider scope risks**

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>SPS faces a challenging financial position and this is likely to continue for the foreseeable future. Financial pressures arising from issues such as higher energy costs, inflationary pressures on contracts and pay awards, as well as an anticipated flat cash allocation from the Scottish Government until 2026/27, represents a significant challenge for SPS.</p>	<ul style="list-style-type: none"> • While there will be challenges to fund the increasing future spends, SPS has advised that the Scottish Government is committed to providing the financial resources. SPS further advised that there will be a funding commitment document for 2024-25 from the Scottish Government. 	<ul style="list-style-type: none"> • Review SPS's arrangements in place to manage its financial position. • Review any progress made in developing financially sustainable plans in the short to medium term. • Review any forecasts/budgeting work for future years.
<p>2. IT Strategic Planning and Cyber Security</p> <p>As part of our 2022/23 audit, we identified that there is scope for SPS to strengthen their IT Strategic Planning and cyber security arrangements. There continues to be a significant risk of cyber-attacks to public bodies. SPS should ensure they have appropriate independent cyber accreditation (i.e. cyber essentials).</p> <p>There is a risk for SPS, that a cyber-attack could significantly impact on both the finances and operation of SPS.</p>	<ul style="list-style-type: none"> • SPS is progressing with planned activities as per its Corporate Plan, Digital Strategy, and Digital Services Annual Delivery Plan for 2023/24 and 2024/25. • A separate Digital Services Risk Register is maintained to identify any significant risks and necessary actions against the risks. 	<ul style="list-style-type: none"> • Consider and assess actions SPS have and plan to take to strengthen their IT Strategic Planning and Cyber Security.

30. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Other wider scope considerations

31. SPS has a number of ongoing business risks that it is actively managing. These include the return of HMP Kilmarnock to SPS ownership, the growing and increasingly complex prisoner population, the Scottish Courts Custody and Prisoner Escort Services (SCCPES) contract and the capacity of the Finance Policy and Services Department. We will monitor these risks as part of our audit appointment and will consider any additional audit work where appropriate.

Best Value

32. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within SPS.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

34. We will provide:

- an Independent Auditor's Report to SPS, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts, and
- SPS and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

35. [Exhibit 4](#) outlines the target dates for our audit outputs and we aim to issue the independent auditors report by 31 August 2024.

Exhibit 4 2023/24 Audit outputs

Audit Output	Target date	Risk Monitoring and Audit Committee Date
Annual Audit Plan	20/03/2024	27/03/2024
Independent Auditor's Report	24/07/2024	31/07/2024
Annual Audit Report	24/07/2024	31/07/2024

Source: Audit Scotland



36. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

37. 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.

38. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. 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 complete unaudited remuneration and staff report, financial statements, notes to the accounts and comprehensive working papers package	27 May 2024
Latest submission date for receipt of the complete annual report	5 June 2024
Latest date for final clearance meeting with the Director of Finance	5 July 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	17 July 2024
Agreement of audited and unsigned annual report and accounts	17 July 2024
Issue of Annual Audit Report to those charged with governance.	24 July 2024
Signed Independent Auditor's Report	31 July 2024
Latest date for signing of SG Consolidation return	31 August 2024

Source: Audit Scotland

Audit fee

39. In determining the audit fee, we have taken account of the risk exposure of SPS and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £117,020 as set out in [Exhibit 6](#).

Exhibit 6**Audit fees (including VAT)**

Fee component	Fees (£)
External Auditor Remuneration	126,420
Pooled costs	12,760
Sectoral Cap Adjustment	-22,160
Total 2023/24 audit fee	117,020

Source: Audit Scotland

40. In setting the fee for 2023/24, we have assumed that SPS has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

41. It is the responsibility of SPS to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work as part of our risk assessment procedures.

42. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

43. The appointed auditor is independent of SPS in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

44. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standards, including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

45. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of SPS.

Audit Quality

46. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

47. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

48. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

49. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Scottish Prison Service

Annual Audit Plan 2023/24

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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