



|                                  |  |
|----------------------------------|--|
| <b>Meeting</b>                   | <b>Audit, Risk and Assurance Committee</b>   |
| <b>Date</b>                      | <b>31 March 2023</b>   |
| <b>Location</b>                  | <b>By video-conference</b>   |
| <b>Title of Paper</b>            | <b>External Audit Plan 2022/23</b>   |
| <b>Presented By</b>              | <b>John McNellis, Head of Finance, Audit &amp; Risk</b><br><br><b>Joanne Brown, Partner, Grant Thornton UK LLP</b><br><br><b>Rebecca Lister, Senior Audit Manager, Grant Thornton UK LLP</b> |
| <b>Recommendation to Members</b> | <b>For Discussion</b>  |
| <b>Appendix Attached</b>         | <b>Appendix A: External Audit Plan 2022/23</b>   |

**PURPOSE**

The External Audit Plan provides an overview of the planned scope and timing of the statutory audit of the Scottish Police Authority.

The plan outlines the scope of the audit in accordance with the Code and International Standards on Auditing (ISAs) (UK), risks requiring special audit consideration, materiality thresholds, wider scope and best value arrangements, an outline of the logistics for carrying out the audit, and the planned audit fees.

## 1 BACKGROUND

- 1.1. Grant Thornton have been appointed by Auditor General for Scotland as the Authorities external auditor for the five year period commencing in 2022/23.
- 1.2. External auditors are required to provide an annual audit plan that outlines key points of how the audit has been planned and will be conducted.
- 1.3. This covering paper and the implications are outlined by Authority staff. The attached report has been produced by Grant Thornton.

## 2 FURTHER DETAIL ON THE REPORT TOPIC

- 2.1. The detailed external audit plan is included at **Appendix A**.
- 2.2. This plan sets out the risk based audit approach that will be undertaken including detail of:
  - Materiality;
  - Significant financial statement risks identified;
  - Wider scope / Best Value responsibilities;
  - Audit fees;
  - Audit timetable and reporting; and
  - Various other required matters

## 3 FINANCIAL IMPLICATIONS

- 3.1. There are financial implications in this report.
- 3.2. The core audit fees as outlined in this report are within budget. External audit also provide a crucial independent opinion on the accuracy of financial reporting.

## 4 PERSONNEL IMPLICATIONS

- 4.1. There are no personnel implications in this report.

## 5 LEGAL IMPLICATIONS

5.1. There are no legal implications in this report.

## **6 REPUTATIONAL IMPLICATIONS**

6.1. There are direct reputational implications in this report. External auditors will provide a public report on the annual report and accounts which may have reputational implications.

## **7 SOCIAL IMPLICATIONS**

7.1. There are no social implications in this report.

## **8 COMMUNITY IMPACT**

8.1. There are no community implications in this report.

## **9 EQUALITIES IMPLICATIONS**

9.1. There are no equality implications in this report.

## **10 ENVIRONMENT IMPLICATIONS**

10.1. There are no environmental implications in this report.

## **RECOMMENDATIONS**

Members are invited to discuss the External Audit Plan for the 2022/23 financial year.

# External Audit Plan

## Scottish Police Authority

Financial year ending 31 March 2023

31 March 2023



**Your key Grant Thornton  
team members are:**

**Joanne Brown**

Engagement Partner

T 0141 223 0848

E Joanne.E.Brown@uk.gt.com

**Rebecca Lister**

Audit Senior Manager

T 020 7728 2529

E Rebecca.Lister@uk.gt.com

**Rudi Farmer**

Assistant Manager

T 0131 659 8543

E Rudi.Farmer@uk.gt.com

# Contents

| Section                                      | Page      |
|--|-----------|
| Introduction                                 | 03        |
| Plan overview                                | 04        |
| Audit approach                               | 06        |
| Audit timeline                               | 07        |
| Materiality                                  | 08        |
| Significant audit risks                      | 09        |
| Other risks identified                       | 12        |
| Accounting estimates and related disclosures | 13        |
| Other matters                                | 16        |
| Wider scope risks identified in planning     | 19        |
| Audit Fees                                   | 24        |
| Adding value through the audit               | 25        |
| <b>Appendices</b>                            | <b>26</b> |

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Introduction

## Purpose

This document provides an overview of the planned scope and timing of the external audit of the Scottish Police Authority for those charged with governance.

We are appointed by the Auditor General as the external auditors of the Scottish Police Authority for the five year period 2022/23 to 2026/27.

## Respective responsibilities

Audit Scotland has issued an updated Code of Audit Practice ('the Code') covering this audit appointment period. There are no significant changes in the scope of our work compared to the previous 2016 Code. However, the 2021 Code applies the requirement to communicate key audit matters to all bodies, but requires them to be reported in the Annual Audit Report.

The Code summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the Scottish Police Authority are summarised in the Appendix of this Audit Plan. We draw your attention to this and the Code.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Scottish Police Authority's financial statements, which have been prepared by management with the oversight of those charged with governance (the Audit, Risk and Assurance Committee). Our audit of the financial statements does not relieve management or the Audit, Risk and Assurance Committee of your responsibilities.

It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. As part of our wider scope work, we will consider how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Scottish Police Authority and is risk based.



# Plan overview

The audit plan sets out our risk based audit approach for the Scottish Police Authority (SPA). This plan outlines our initial risk assessment and is reported to those charged with governance (Audit, Risk and Assurance Committee) and will be shared with Audit Scotland.

## 01 Materiality

We have calculated our planning materiality using prior year gross operating expenditure as per the audited 2021-22 financial statements as our benchmark, resulting in the following:

- We have determined planning materiality to be £20.16 million. This equates to 1.2% of the SPA's prior year gross expenditure.
- Performance materiality has been determined as £12.096 million and is based on 60% of planning materiality.
- We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Trivial is capped at £250,000 in line with Audit Scotland requirements.
- We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25,000 for the remuneration of Board members, SPA senior management group and Police Scotland Force executive salary tables section of the remuneration report.

We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2022/23.

## 02 Financial statement audit

At planning, in accordance with the ISA's (UK) and Practice Note 10 (Revised 2020) 'The Audit of Public Sector Financial Statements' issued by the Public Audit Forum we have identified the following significant financial statement audit risks:

- Management override of controls (ISA (UK) 240);
- Risk of fraud in income recognition (ISA (UK) 240) (this risk has been rebutted)
- Risk that expenditure, including operating expenditure and associated creditor balances is not complete (Practice Note 10)
- Valuation of land and buildings (valuation); and
- Valuation of the net pension fund liability (valuation).

We will communicate significant findings on these areas as well as any other significant matters arising from the audits to you in our Annual Audit (ISA 260) Report

Two revised Auditing Standards (ISA (UK) 315 (Revised July 2020) ISA (UK) 240 (Revised May 2021)) will be applicable to your audit for the first time in 2022/23. Further detail on the impact of these revised standards is set out in the appendices.

## 03 Wider Scope and Best Value Audit

In accordance with the Code, our planning considers the wider scope and Best Value areas of audit.

We have identified the following wider scope significant risks and will conclude on these during the audit:

- Financial management – no significant risks identified. We will continue to review your arrangements in this area and report findings and conclusions as part of the Annual Audit Report.
- Financial sustainability – we have identified one significant risk relating to identification and delivery of significant savings and transformation in order to reduce funding gaps, deliver a balanced budget and continue to deliver key services and policing priorities. More information relating to the response to this risk can be found on page 20 of this report. Findings and conclusions drawn from procedures undertaken on this significant risk area will be reported within the Annual Audit Report.
- Vision, Leadership and Governance - no significant risks identified. We will continue to review your arrangements in this area and report findings and conclusions as part of the Annual Audit Report.
- Use of Resources to Improve Outcomes – no significant risks identified. We will continue to review your arrangements in this area and report findings and conclusions as part of the Annual Audit Report.

# Plan overview (continued)

## 04 Other audit matters

We summarise other audit matters for the Audit, Risk and Assurance Committee awareness. This includes:

- In accordance with the Code and planning guidance we also complete and submit a number of deliverables during the year, including sharing intelligence with Audit Scotland, and completing Audit Scotland data sets
- Consideration of going concern in accordance with Practice Note 10.

## 05 Our Audit Fee

Audit fees were shared by Audit Scotland with the Chief Executive and Chief Financial Officer on 15 December 2022. The Audit Fee set by Audit Scotland is £274,590. This fee includes:

- Auditor remuneration £217,970;
- Reduction in pooled costs (£3,450);
- Audit Support costs £6,190; and
- Sectoral cap adjustment £53,880.

Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP.

We anticipate there may be additional costs to our audit not already inbuilt into the fee set by Audit Scotland. This is likely to include additional costs in relation to employment of an auditor expert to assist with the audit work relating to the significant risk of valuation of land and buildings. Additional costs in relation to the significant risk relating to the net pension liability and testing of the Police Pension scheme which may also incur additional audit resource and cost. We will discuss any additional costs with management and confirm the final audit fee within our Annual Audit Report.

We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

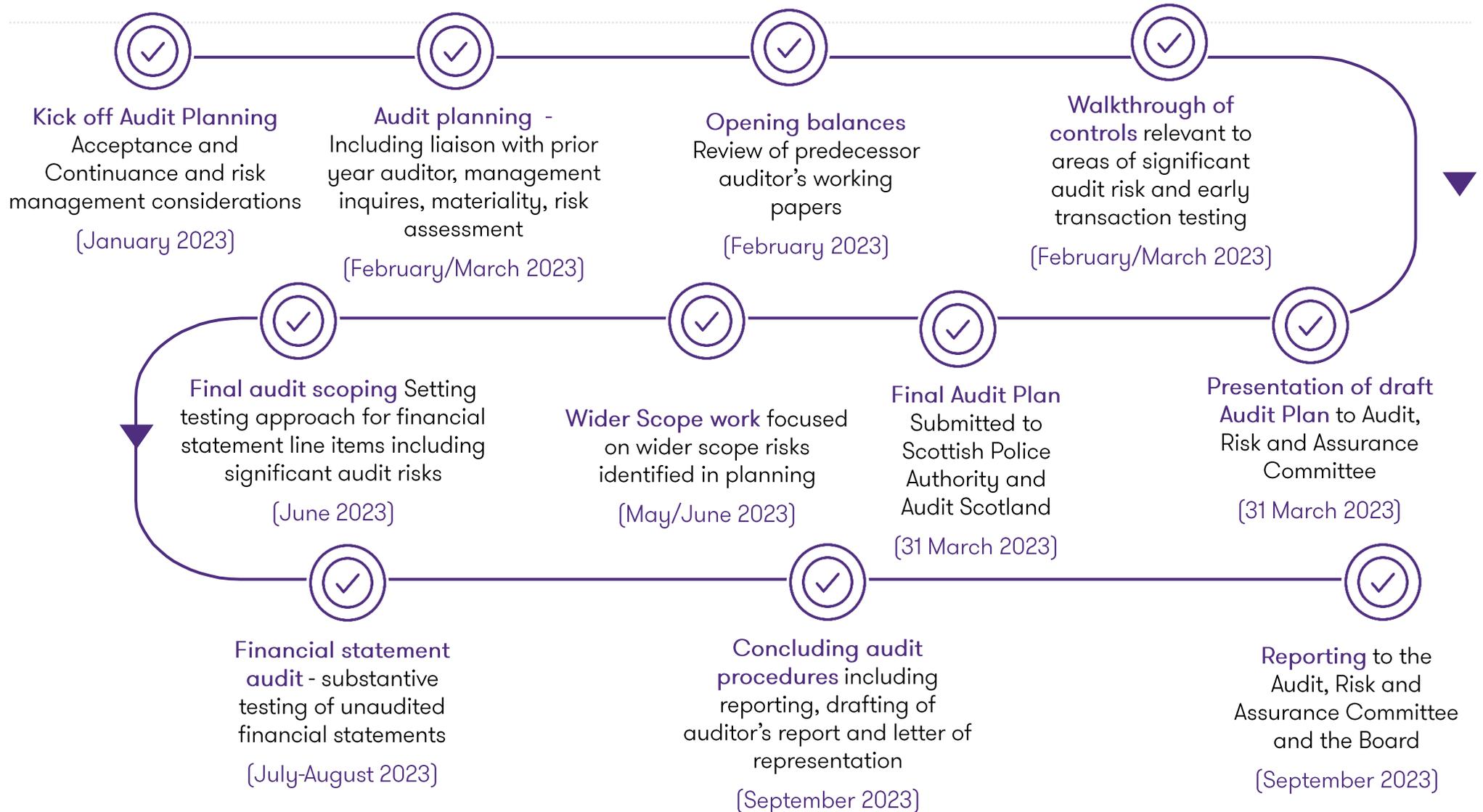
## 06 Adding Value Through the Audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials. We use our LEAP audit methodology and data analytics to ensure delivery of a quality audit.

As we undertake our first year as your new auditor we will bring a fresh perspective by implementing an element of unpredictability in our testing to highlight areas of risk and improvements that can be made through both the financial statement and wider scope and best value audit. We will also engage with our financial reporting specialist team to perform a detailed review of the annual report and accounts to identify areas for improvement in respect of financial reporting.

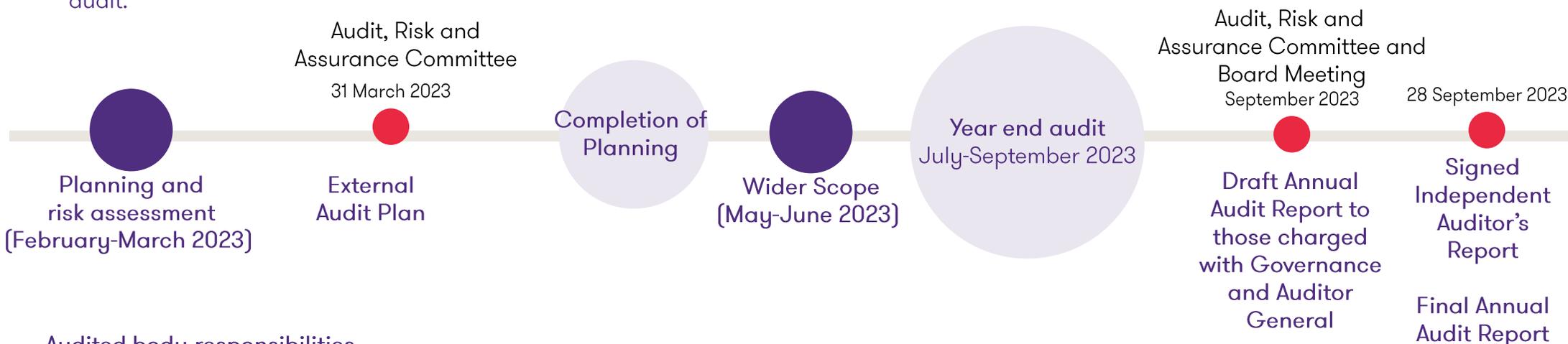
An Engagement Quality Review (EQR) has been assigned to provide oversight and challenge to enhance the audit quality process.

# Audit approach



# Audit timeline

The target dates specified by Audit Scotland for submission of Audit Plans, Audited Accounts and the Annual Audit Report have returned to pre-covid dates. We are required to submit audit plans to Audit Scotland by 31 March 2023, and it is anticipated that we will submit audited accounts and the Annual Audit Report by 31 October 2023. We have set out below our planned timescales for the Scottish Police Authority audit.



## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging our other audit engagements. Where additional resources are needed to complete the audit due to an audited body not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft accounts, comprising financial statements and related reports, of good quality, by the deadline you have agreed with us
- prepare good quality working papers which support the figures included in the financial statements, in line with the working paper requirements schedule that we have shared with you, and make these available to us at the start of the year end audit visit
- provide all agreed data reports to us at the start of the audit, which are fully cleansed and reconciled to the figures in the financial statements
- ensure that all appropriate staff are available to us for queries over the planned period of the audit, or as otherwise agreed
- respond promptly and appropriately to all audit queries, within agreed timescales.

# Materiality

## The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross operating costs of the Authority for the financial year. Materiality at the planning stage of our audit is £20.16m (PY Audit Scotland Materiality £20m), which equates to approximately 1.2% of your prior year gross operating costs for the year.

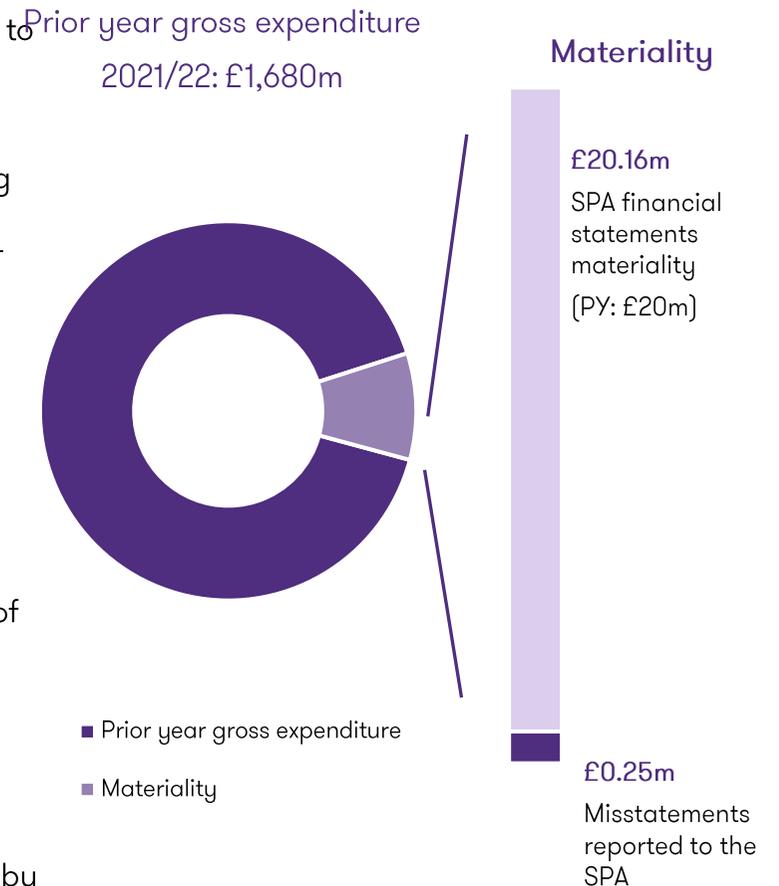
Performance materiality for the SPA for the year ended 31 March 2022 has been set at £12.096m (PY Audit Scotland performance materiality £12m).

We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25,000 for the remuneration of Board members, SPA senior management group and Police Scotland Force executive section of the remuneration report.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Accountable Officer and the Audit, Risk and Assurance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Scottish Police Authority any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In line with Audit Scotland requirements 'clearly trivial' is capped at £250,000.



# Significant audit risks

Significant risks are defined by ISAs(UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Risk   | Reason for risk identification  | Key aspects of our proposed response to the risk  |
|--|---|---|
| <b>The revenue cycle includes fraudulent transactions (rebutted)</b> | Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.   | Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Scottish Police Authority, we have determined that the risk of fraud arising from revenue recognition for all revenue streams can be rebutted, because: <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition;</li><li>• opportunities to manipulate revenue recognition are very limited; and</li><li>• the culture and ethical frameworks of police authorities, including the Scottish Police Authority, mean that all forms of fraud are seen as unacceptable.</li></ul> <b>Therefore we do not consider this to be a significant risk for the Scottish Police Authority.</b>   |
| <b>Management over-ride of controls</b>                              | As set out in ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions. | We will: <ul style="list-style-type: none"><li>• Document our understanding of and evaluate the design effectiveness of management's key controls over journals;</li><li>• Analyse your full journal listing for the year and use this to determine our criteria for selecting high risk journals;</li><li>• Test the high risk journals we have identified;</li><li>• Gain an understanding of the critical judgements applied by management in the preparation of the financial statements and consider their reasonableness;</li><li>• Gain an understanding of the key accounting estimates made by management and carry out substantive testing on in scope estimates.</li><li>• Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li></ul> |

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK) 315)

# Significant audit risks

| Risk  | Reason for risk identification   | Key aspects of our proposed response to the risk   |
|---|--|--|
| <b>Risk that expenditure, including operating expenditure and associated creditor balances is not complete (Practice Note 10)</b> | <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially where you are required to meet financial targets.</p> <p>We consider this gives rise to the following risks:</p> <ul style="list-style-type: none"><li>• The risk that expenditure, including operating expenditure and associated creditor balances is not complete.</li></ul> <p>These risks arise from the pressure to meet financial targets.</p> <p>We have rebutted this risk in relation to payroll expenditure stream as we deem the opportunity to manipulate completeness of payroll expenditure in a material way to be low.</p> | <p>We will:</p> <ul style="list-style-type: none"><li>• Evaluate the design and implementation effectiveness of the accounts payable system.</li><li>• Evaluate the design and implementation effectiveness of your system for recording accruals.</li><li>• Verify that the operating expenses included within the financial statements are complete via review of the reconciliations between the Accounts Payable system and the General Ledger.</li><li>• Search for unrecorded liabilities by performing a substantive sample test of invoices input on to the accounts payable system post period end.</li><li>• Search for unrecorded liabilities by reviewing cash payments post period end.</li></ul> |

# Significant audit risks

| Risk                                   | Reason for risk identification   | Key aspects of our proposed response to the risk   |
|--|--|--|
| <b>Valuation of land and buildings</b> | <p>In accordance with the HM Treasury Financial Reporting Manual (FRM), subsequent to initial recognition, the Scottish Police Authority (SPA) is required to hold property, plant and equipment on a valuation basis. The valuation basis used will depend on the nature and use of the assets. Specialised land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value. The SPA appoint Graham and Sibbald to undertake a rolling programme of valuations across their asset base, valuing land and buildings at least once every five years. As at 31 March 2022, the SPA held property, plant and equipment (PPE) of £520 million including land and buildings £396 million.</p> <p>Given the significant value of the land, buildings and dwellings held by the SPA and the level of complexity and judgement involved in the estimation process, there is an inherent risk of material misstatement in the year end valuation of some of these assets. However, the risk is less prevalent in other assets as these are generally held at depreciated historical costs, as a proxy of fair value and therefore less likely to be materially misstated. We will therefore focus our audit attention on assets that have large and unusual changes in valuations compared to last year and / or unusual approaches to their valuations, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of land and buildings in our Annual Audit Report in September 2023.</p> | <p>Our testing will include:</p> <ul style="list-style-type: none"><li>• Evaluating management's processes and controls for the calculation of the valuation estimates, the instructions issued to their management experts and the scope of their work;</li><li>• Engaging our own valuations expert to assess the instructions issued by the SPA to your valuers, the final valuers' report and the assumptions used that underpin the final valuations;</li><li>• Evaluating the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantively tested to ensure the valuations are reasonable;</li><li>• Challenging the key data and assumptions used by management's experts in the valuation process for these assets;</li><li>• Testing a selection of other asset revaluations made during the year to ensure they have been input accurately into the entity's asset register, and the revaluations have been correctly reflected in the financial statements; and</li><li>• Evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li></ul> |

# Significant audit risks

| Risk   | Reason for risk identification   | Key aspects of our proposed response to the risk  |
|--|--|---|
| <b>Valuation of the pension fund net liability</b> | <p>The Police Officer Pension schemes and Local Government Pension Scheme (LGPS) pension fund liability as reflected in the balance sheet and notes to the accounts represent significant estimates in the financial statements.</p> <p>This estimate by its nature is subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used. We do not believe there is a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation or due to the source data used in their calculation (<i>unless any significant events have occurred, such as significant special events [i.e. redundancies, bulk transfers or outsourcing], material transfers or material membership movements which the actuary may not have taken into account.</i>)</p> <p>However, we have concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. As noted above, the appropriateness of the assumptions proposed by the actuary is covered by the TAS actuarial standards. However, the entity may choose to use different assumptions than those proposed by their actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore identified the valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>Our testing will include:</p> <ul style="list-style-type: none"><li>• Obtain an understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li><li>• Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li><li>• Assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;</li><li>• Assess the accuracy and completeness of the information provided by the SPA to the actuary to estimate the liability;</li><li>• Test the consistency of the pension fund net liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and</li><li>• Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested within the report. This will include the potential impact of the McCloud/ Sergeant ruling.</li></ul> |

# Other risks identified

| Risk  | Reason for risk identification   | Key aspects of our proposed response to the risk  |
|---|--|---|
| <b>Implementation of IFRS 16 (existence, accuracy and completeness)</b> | <p>IFRS 16 was implemented by central government bodies under the FReM from 1 April 2022. Under IFRS 16 a lessee is required to recognise right-of-use assets and associated lease liabilities in its Statement of Financial Position. This will result in significant changes to the accounting for leased assets and the associated disclosures in the financial statements in the year ended 31 March 2023.</p> <p>Further detail on the implications of this Accounting Standard is set out in the Appendices.</p>                           | <p>In response to this other risk we will:</p> <ul style="list-style-type: none"><li>• Obtain an understanding of how the SPA has established systems and processes to capture the data required to account for right-of-use lease assets in accordance with IFRS 16</li><li>• Review the revised accounting policies for the year ended 31 March 2023 to reflect the requirements of this accounting standard.</li><li>• Assess the existence, accuracy and completeness of the right-of-use assets and associated lease liabilities, and the related disclosures, during our audit.</li></ul> |
| <b>Accounting of legal provisions (completeness and valuation)</b>      | <p>There is an expected increase in legal costs in the 2022/23 financial year as a result of ongoing police inquiries. An increase in legal costs may result in provisions requiring to be recognised within the financial statements therefore we have identified an other risk relating to the completeness of legal provisions.</p> <p>The previous year annual audit report identified various issues with the legal provision including provisions being valued on a prudent basis rather than a 'best estimate' as required by IAS 37.</p> | <p>In response to this other risk we will:</p> <ul style="list-style-type: none"><li>• Review legal costs in year and assess whether there are any material undisclosed provisions or contingent liabilities</li><li>• Review provisions accounted for in the financial statements and obtain an understanding of how provisions have been calculated and whether these have been measured in line with the 'best estimate' requirements of the accounting standards.</li></ul>   |

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Annual Audit Report.

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

## Introduction

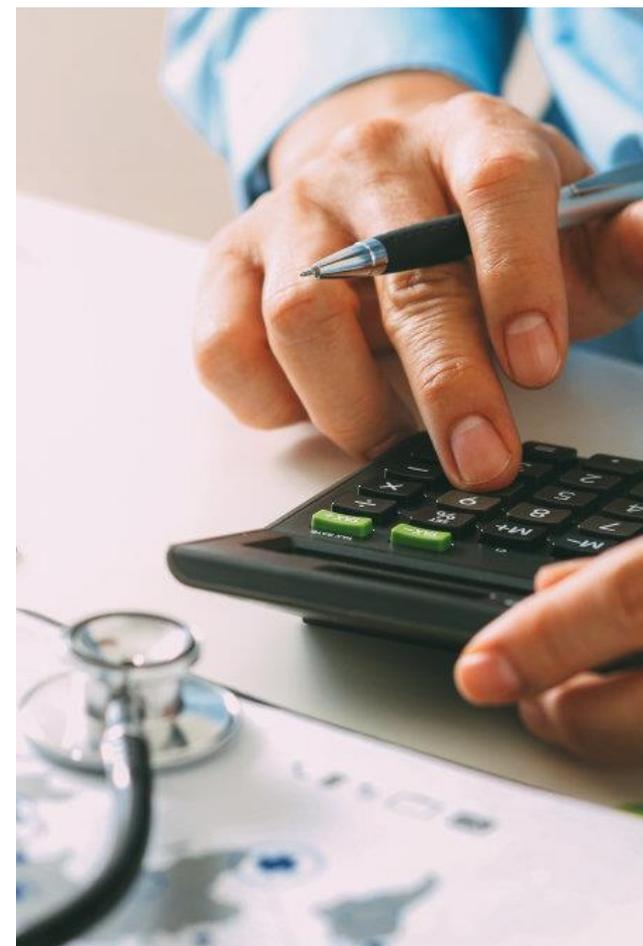
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically does the Scottish Police Authority:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting information from management and those charged with governance during our audits for the year ended 31 March 2023.

Based on our knowledge of the Scottish Police Authority we have identified the following accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Depreciation
- Year end provisions
- Valuation of police officers pension liability
- PFI liabilities
- Fair Value of Assets and Liabilities (Financial Instruments)

## The Scottish Police Authority's information systems

In respect of the SPA's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the bodies use management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the bodies (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



## Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

## Planning enquiries

As part of our planning risk assessment procedures we have included inquiries within our management letters shared with the Scottish Police Authority.

## Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

---

# Other matters

---

## Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2022-23 issued by Audit Scotland:

- We audit parts of your Remuneration and Staff Report in your Annual Report and check whether these sections have been properly prepared (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in the FReM (opinion).
- We carry out work in order to express an opinion on whether in all material respects, expenditure was incurred and income applied in accordance with applicable enactments and guidance issued by the Scottish Ministers (opinion).
- We consider our other duties under the Code and planning guidance (2022/23), as and when required, including:
  - Supporting Audit Scotland in Section 22 reporting
  - Providing regular updates to Audit Scotland to share awareness of current issues
  - Notifying Audit Scotland of any cases of money laundering or fraud
  - Review of Central Government Technical guidance prior to issue by Audit Scotland.

---

## Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a “SORP-making body” for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 was updated in 2020 to take account of revisions to ISAs (UK), including ISA (UK) 570 (Revised September 2019) on going concern.

PN 10 allows auditors to apply a ‘continued provision of service approach’ when auditing going concern in the public sector, where appropriate. Audit Scotland’s also issued further guidance in a Going Concern publication in December 2020).

Within our wider scope work we will conclude on the Scottish Police Authority’s arrangements to ensure financial sustainability.

---

# Other matters (continued)

---

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be considered as part of our audit. However, the procedures will not be as extensive as the procedures adopted for the significant risks we have identified and highlighted in this Audit Plan.

## Internal control environment

During our initial audit planning we will develop our understanding of your control environment (design and implementation) as it relates to the preparation of your financial statements. In particular we will:

- Consider key business processes and related controls
- Assess the design of key controls over all significant risks we have identified. This will include key controls over:
  - Journal entries and other key entity level controls
  - The completeness and accuracy of information provided to your external valuer to perform the valuation of land and buildings assets
  - The review of valuation outputs including key assumptions made by the valuer and significant movements in revalued assets
  - The completeness and accuracy of information provided to the actuary to perform the valuation of the net pension fund liability
  - The review of actuarial outputs including key assumptions made by the actuary and significant movements impacting the net pension liability

Our focus is on design and implementation of controls only. We do not intend to assess, or place any reliance on the operating effectiveness of your controls during our audit.

---

# Other matters (continued)

---

## Audit handover

To facilitate effective audit planning and deliver an efficient audit we gain a detailed understanding of the Scottish Police Authority from discussions with key personnel at the entity, internal audit and the prior year auditor, attendance at Audit, Risk and Assurance Committee meetings and review of key documents.

In line with Audit Scotland's Handover guidance we seek to place as much assurance as possible on your previous auditor's work on your opening balances. We visited your previous auditor in February and reviewed their prior year audit working paper files.

From this review we identified the following findings from the prior year audit which have informed our risk assessment for the current year:

- Recommendations were made in respect of assets not revalued in year and further work was required by estates to ensure the current value of assets was not materially different to the carrying value
- Legal provision estimates were overstated however adjustments of £4.142m had been made in the 2021/22 final audited accounts to reflect the 'best estimate' required by IAS 37.

These findings have been factored into our risk assessment and planning for the current year audit and we have identified a significant risk in relation to the valuation of land and building assets and an other risk around accounting for legal provisions.

## Financial reporting developments

During our audit we will actively discuss emerging financial reporting developments with you. The key financial reporting development for 2022/23 central government audits is the implementation of IFRS16 from 1 April 2022, as set out on page 12 of this Audit Plan.

# Wider scope risks identified in planning

Our responsibilities under the Code extend beyond the audit of the financial statements. The Code sets out four audit dimensions that frame wider scope into identifiable areas. These four dimensions have been slightly amended in the 2021 Code as shown in the table below.

| 2016 Code                   | 2021 Code                            |
|-----------------------------|--------------------------------------|
| Financial Sustainability    | Financial Sustainability             |
| Financial Management        | Financial Management                 |
| Governance and transparency | Vison, Leadership and Governance     |
| Value for Money             | Use of Resources to Improve Outcomes |

The Code also requires that auditors assess and report on audited bodies' performance in meeting their Best Value and community planning duties, as part of their annual audit. For central government bodies we are required to consider the arrangements put in place by Accountable Officers and Chief Constable to meet their Best Value obligations as part of our risk-based wider-scope audit work.

We consider each of these areas through our audit planning process and have set out below the identified areas of risk for our wider scope work.

From our initial planning work, we have identified one significant risk in relation to Financial Sustainability. We have not identified significant risks in relation to Financial Management, Vision, Leadership and Governance and Use of Resources to Improve Outcomes from our initial planning and risk assessment work. We will continue to review your arrangements before we issue our Annual Audit Report.

Our findings and recommendations of wider scope work performed will be communicated through the Annual Audit Report, which will be issued in line with the national statutory deadline.

# Wider scope risks identified in planning (continued)

## Financial sustainability

While the SPA reported strong financial performance in 2021/22 and are on track to deliver a balanced budget for 2022/23 financial year, there are significant funding gaps identified for the medium to longer term. This is compounded by an uncertain financial climate where inflation is increasing at record rates and the cost of living crises is pushing up costs for all areas of the economy. It is important that the Authority seeks to embed elements of these uncertainties within continuous financial planning and reviews including risk and sensitivity analyses to assess and mitigate against the impact of any future risks on delivery of the financial position before they crystallise.

The recent consecutive one-year funding settlements have created challenges in the authority's ability to plan for the medium to longer term and has weakened one of the key anchor points for strategic planning for the organisation. The Authority faces significant challenges in dealing with future funding gaps where funding is not matched by the Scottish Government. In order to achieve financial sustainability and bridge funding gaps, the Authority will need to identify and deliver significant savings and transformation in order to reduce funding gaps, deliver a balanced budget and continue to deliver key services and policing priorities.

Significant risk identified:

In order to achieve financial sustainability to bridge funding gaps, the authority will need to identify and deliver significant savings and transformation in order to reduce funding gaps, deliver a balanced budget and continue to deliver key services and policing priorities.

Response to significant risk:

In undertaking our audit work in response to this significant risk we will:

- Review how the SPA identifies significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- Review how the SPA plans to bridge its funding gaps and identify achievable savings and future transformation
- Review how the SPA plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- Review how the SPA identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans

Findings and conclusion drawn from procedures undertaken on this significant risk area will be reported within the Annual Audit Report.

# Wider scope risks identified in planning (continued)

**Financial management**

The SPA has processes in place which detail the responsibilities of Resources Committee members and senior management for planning and managing the Authority's finances. These are set out in the SPA's Governance Framework. We have not identified any evidence of the SPA not complying with these processes. The SPA identifies future cost pressures as part of its initial budget setting process, which involves meetings between budget holders and members of the finance team, on an ongoing basis throughout the year, usually through budget monitoring meetings.

The Resources Committee is a formal committee where the purpose is to provide scrutiny, challenge and gain assurance with regard to all aspects on significant financial and budgetary matters in order to provide assurance to Authority Board members in line with the principles and values of Best Value. We have not identified a significant risk in relation to the SPA's arrangements for financial management from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report.

We will seek to understand the effectiveness of the SPA's budgetary control system in communicating accurate and timely financial performance, including the arrangements for identifying, monitoring and reporting of savings. We will consider the overall financial position reached by the SPA during 2022/23 and we will seek to understand the future financial implications of this.

**Vision, Leadership and Governance**

The Scottish Police Authority has published a Corporate Plan for 2020-2023 which sets out the role and responsibilities of the Scottish Police Authority as the governance body for policing in Scotland, the outcomes they seek to achieve and the high level activities designed to achieve them. The Corporate Plan aligns to the Strategic Police Priorities which were published by the Scottish Government in December 2019, and go alongside the Authority's jointly produced Strategic Police Plan and the Forensic Services Strategy which were developed collaboratively with the Services and relate to the delivery of the police and forensic services that are overseen by the Authority. These documents provide the strategic framework, which sets the context and direction for policing in Scotland. The 3-year Corporate Plan is underpinned by an Annual Business Plan which sets out the Authority's priorities for the year and explains how the Authority measures its performance. The SPA hold a number of arrangements in place to ensure effective oversight of Police Scotland in delivering the priorities set out in the Corporate Plan.

We have not identified a significant risk in relation to the SPA's arrangements for vision, leadership and governance from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report.

We will review the effectiveness of your scrutiny and governance arrangements, leadership and decision making, and transparency of reporting of financial and performance information. Our work will also include reviewing the consistency of your Governance Assurance Statement with the key findings from audit, scrutiny, and inspection.

# Wider scope risks identified in planning (continued)

## Use of Resources to Improve Outcomes

The SPA needs to make best use of its resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

We have not identified a significant risk in relation to the SPA's arrangements for use of resources to improve outcomes from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report.

In undertaking our work we will consider the clarity of the arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of the public, and deliver continuous improvements in policing priorities. We will do this by reviewing the arrangements that the SPA has developed to address workforce challenges and improve performance, including performance against standards/targets. We will also consider the arrangements the SPA has in place to meet outcomes and improvement objectives, for working with strategic partners and communities and reporting performance against outcomes, financial and other resources.

## Other wider scope areas

In addition to the wider scope risks set out above, Audit Scotland's Planning Guidance 2022/23 requires us to consider we will consider the following national risks as part of our wider Scope work:

- Climate change – Auditors are required to provide answers to six specified questions in a mandated return to Audit Scotland and include appropriate reference in our Annual Audit Report.
- Cyber security – Auditors are required to consider risks related to cyber security at audited bodies as part of their work on the financial statements audit in line with guidance issued by Audit Scotland's Digital Audit Team. As required by the planning guidance we will to report any significant incidents, issues or areas of good practice to Audit Scotland's Digital Audit team.

---

# Wider scope risks identified in planning (continued)

---

## Best Value

The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Within the Police and Fire Reform Act (Scotland) 2012 this requirement also extends to the Chief Constable. Auditors are required to confirm that there are organisational arrangements in place in this regard when planning and reporting on the wider scope areas. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The nature and extent of this work is determined by the annual risk assessment carried out as part of our wider scope work.

We have identified a significant risk in relation to financial sustainability as a result of our risk assessment and planning work over the wider scope themes. As part of our wider scope work relating to financial sustainability we will assess the arrangements in place by the Authority in order to achieve sustainability as a best value characteristic and report on arrangements in place as part of our Annual Audit Report (AAR). Although we have identified a significant risk in relation to financial sustainability as part of our wider scope work we have not identified a significant risk in relation to arrangements in place to secure best value.

We have not identified any significant risks in relation to the Scottish Police Authority's Best Value arrangements however as part of our review of arrangements embedded within our wider scope work for Financial Sustainability, we will look at the theme of sustainability and the arrangements the authority has in place to deliver sustainability.

We will report on the arrangements in place over the Best Value theme of sustainability within our Annual Audit Report.

# Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC on audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the Scottish quality framework.

Audit fees were shared by Audit Scotland with the Chief Executive and Chief Financial Officer in December 2022. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

## Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified.

We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

## Fee Assumptions

In setting the below fees, it is assumed that the Scottish Police Authority will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audits
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

We anticipate there may be additional costs to our audit not already inbuilt into the fee set by Audit Scotland. This is likely to include additional costs in relation to employment of an auditor expert to assist with the audit work relating to the significant risk of valuation of land and buildings. Additional costs in relation to the significant risk relating to the net pension liability and testing of the Police Pension scheme which may also incur additional audit resource and cost. We will discuss any additional costs with senior officers and confirm the final audit fee within our Annual Audit Report.

## Audit fees for 2022-23

| Service  | Fees £          |
|--|-----------------|
| External Auditor Remuneration                    | £217,970        |
| Pooled Costs                                     | (£3,450)        |
| Contribution to Audit Scotland support costs     | £6,190          |
| Contribution to Performance Audit and Best Value | Nil             |
| Sectoral cap adjustment                          | £53,880         |
| <b>2022-23 Fee</b>                               | <b>£274,590</b> |

## Additional Fees (Non-Audit Services)

| Service  | Fees £ |
|--|--------|
| At planning stage we confirm there are no planned non-audit services | Nil    |

# Adding value through the audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials and our LEAP audit methodology and use of data analytics to ensure delivery of a quality audit.

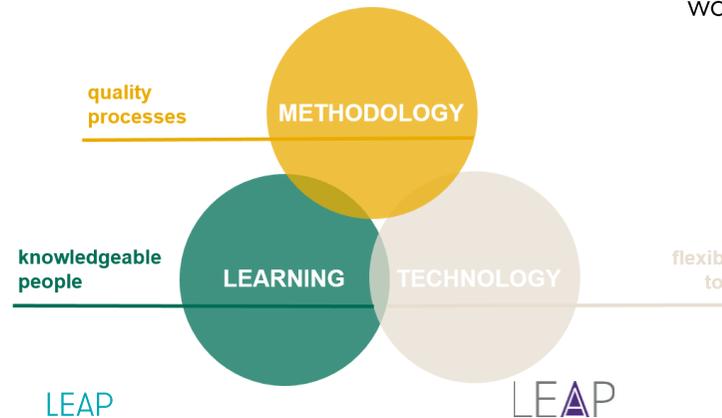
Our audit methodology is risk based and includes developing a good understanding of the Scottish Police Authority. The diagram opposite summarises how our methodology and use of data adds value to our audit.

We comply with UK Auditing Standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest through our Audit Investment Plan, which is supported by a specific national Public Sector Investment Plan.

We comply with Audit Scotland's quality arrangements, including submitting an Annual Quality Report on our Audit Scotland portfolio. Audit Scotland's quality report for 2021/22 can be found on the [Audit Scotland website](#).

Our wider quality arrangements are set out in our annual transparency reports which are available on our website here: [Annual report 2021](#).

## Use of audit, data interrogation and analytics software



### LEAP

- A globally developed ISA-aligned methodology that re-engineers our audit approach to focus on quality and effectiveness
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- The LEAP approach allows us to tailor the audit programme to help engagement teams respond quickly to any changes as they occur, keeping quality high through responsiveness and flexibility.

### Info



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



#### REQUEST AND SHARE

- Communicate and transfer documents securely; Extract data directly from client systems; Work flow assignment and progress monitoring



#### ASSESS AND SCOPE

- Compare balances and visualise trends; Understand trends and perform more granular risk assessment



#### VERIFY AND REVIEW

- Automate sampling; Download automated work papers



#### INTERROGATE AND EVALUATE

- Analyse 100% of transactions quickly and easily; Identify high risk transactions for investigation and testing; Provide client reports and relevant benchmarking KPIs



#### FOCUS AND ASSURE

- Visualise relationships impacting core business cycles; Analyse 100% of transactions to focus audit on unusual items; Combine business process analytics with related testing to provide greater audit and process assurance



#### INSIGHTS

- Detailed visualisations to add value to meetings and reports

# Appendices

|                               |    |
|-------------------------------|----|
| Independence                  | 28 |
| Responsibilities              | 29 |
| Communication                 | 30 |
| Fraud responsibilities        | 31 |
| IT audit strategy             | 33 |
| Right of Use Assets – IFRS 16 | 35 |
| Future auditing developments  | 36 |

# Independence

## Auditor independence

Ethical Standards and ISA (UK) 260 'Communication with Those Charged With Governance' require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the Firm, or covered persons, relating to our independence.

We encourage you to contact us to discuss any independence issues, with us and will discuss the matter with you if we make any significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors of the Scottish Police Authority that we are required to report or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the 2019 Ethical Standard.

Our team complete annual fit and proper declarations, including independence confirmations, as well as confirming independence from individual audited bodies when completing timesheets. The work of our Ethics team is overseen by our Ethics partner and all staff undergo regular ethics training each year.

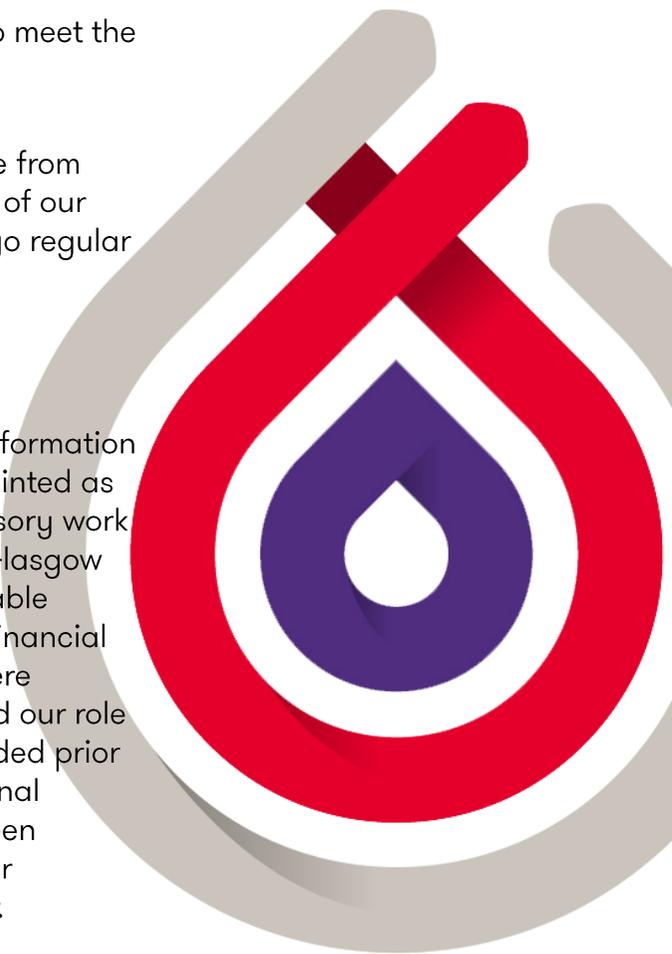
We confirm we are independent of the Scottish Police Authority.

## Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit and additional services before we were appointed as auditor. Non-audit services prior to our appointment include advisory work relating to the transfer of post mortem toxicology services from Glasgow University to Forensic Services and a small limited scope, reasonable assurance review relating to matters arising before the 2022/23 financial year. Prior to our appointment the non-audit services provided were discussed with Audit Scotland in the context of independence and our role as external auditor. Audit Scotland agreed that the services provided prior to our appointment did not impact on our independence as external auditors and since our appointment this non-audit service has been completed and therefore we consider there to be no threats to our independence as external auditors for the 2022/23 financial year.

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Annual Audit Report at the conclusion of the audit.



# Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

## The Scottish Police Authority

Your responsibilities include:

- Maintaining adequate accounting records and working papers
- Preparing accounts for audit, comprising financial statements, which give a true and fair view, and related reports
- Establishing and maintaining a sound system of internal control
- Establishing sound arrangements for proper conduct of affairs, including the regularity of transactions
- Maintaining standards of conduct for the prevention and detection of fraud and other irregularities
- Maintaining strong corporate governance arrangements and a financial position that is soundly based
- Establishing and maintaining an effective internal audit function.

## External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required.
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2022/23).



# Communication

ISA (UK) 260 'Communication with Those Charged With Governance', as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (the Audit, Risk and Assurance Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Audit, Risk and Assurance Committee.

| Our communication plan  | Audit Plan | Annual Audit Report (our ISA 260 Report) |
|---|------------|--|
| Respective responsibilities of auditor and management/those charged with governance   | •          |  |
| Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks   | •          |  |
| Confirmation of independence and objectivity  | •          | •  |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | •          | •  |
| Significant matters in relation to going concern  | •          | •  |
| Views about the qualitative aspects of the Scottish Police Authority's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures  |            | •  |
| Significant findings from the audit   |            | •  |
| Significant matters and issues arising during the audit and written representations that have been sought   |            | •  |
| Significant difficulties encountered during the audit   |            | •  |
| Significant deficiencies in internal control identified during the audit  |            | •  |
| Significant matters arising in connection with related parties  |            | •  |
| Follow up on prior year action plan recommendations   |            | •  |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements   |            | •  |
| Non-compliance with laws and regulations  |            | •  |
| Unadjusted misstatements and material disclosure omissions  |            | •  |
| Expected modifications to the auditor's report or emphasis of matter  |            | •  |

# Fraud responsibilities

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on the Scottish Police Authority was the year ended 31 March 2023. Requirements in ISA (UK) 240 (Revised May 2021) have been enhanced for the identification and assessment of risks of material misstatement due to fraud and the response to those risks.

**The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at the Scottish Police Authority.**

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is the Scottish police Authority's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

As auditors, we are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

As part of our risk assessment procedures we are required to:

- identify and assess the risks of material misstatement in the financial statements due to fraud, including financial misreporting and misappropriation of assets.
- hold separate discussions with management, those charged with governance and others (as appropriate) to gain insights on their views of fraud.

# Fraud responsibilities (continued)

During our audit work we will:

- design and implement appropriate audit procedures to respond to the risks of misstatement we have identified and reported in this Audit Plan;
- remain alert to new risks and amend our risk assessments accordingly; and
- respond appropriately to any risks identified.

Throughout the audit we work with you to consider the significant risks we identify, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control. We will report to you any significant deficiencies we identify.

In addition, as set out in the Audit Scotland Planning Guidance 2022-23, we are required to:

- provide information on fraud cases to Audit Scotland on a quarterly basis
- communicate emerging issues to Audit Scotland, and
- contribute to the National Fraud Initiative report

## Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the Audit Scotland Planning Guidance for 2022-23) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at the Scottish Police Authority we will report to the Auditor General as required by Audit Scotland.

# IT audit strategy

ISA (UK) 315 (Revised July 2020): Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and its Environment' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on the Scottish Police Authority was the year ended 31 March 2023.

We are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e. IT general controls (ITGCs). The revised requirements in ISA (UK) 315 (Revised July 2020) include:

## Key changes

- An emphasis has been added on the need for auditors to not bias their work toward obtaining corroborative evidence or excluding evidence that is contradictory.
- The concept of 'inherent risk factors' has been introduced to assist the auditor in identifying events or conditions that may affect the susceptibility of assertions about classes of transactions, account balances or disclosures to misstatement.
- A new concept of significant classes of transactions, account balances or disclosures refers to those classes for which there are assertions with an identified risk of material misstatement (referred to as relevant assertions).
- A new concept of spectrum of inherent risk applies to the extent to which inherent risk varies.
- Significant risk relates to an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the affect of inherent risk factors on the combination of the likelihood of a misstatement and the magnitude.
- A requirement for auditors to understand the entity's use of IT in its business, the related risks and the system of internal control addressing such risks. (Guidance is being provided from Audit Scotland's Digital Auditing team to assist auditors in this regard).

During our audit we will complete an assessment of the design and implementation of relevant ITGCs.

# IT audit strategy (continued)

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

| IT system                        | Audit area           | Planned level IT audit assessment  |
|----------------------------------|----------------------|--|
| eFinancials                      | Financial reporting  | A detailed review of the IT General Controls related to security management, development and maintenance and technology infrastructure will be carried out by our internal IT specialists team for the 2022/23 financial year on these in scope systems. We will look to gain assurance on the work performed in year in relation to the design effectiveness and implementation of IT General Controls for the current financial year and update our understanding of any changes in the system since the prior financial year. We will review any changes identified in key controls from the prior year and assess the impact of any changes on the planned audit approach. |
| Real Asset Management 4000 (RAM) | Fixed Asset Register |  |
| iTrent                           | Payroll              |  |

# Right of Use Assets - IFRS 16 implementation

IFRS 16 was implemented by Scottish central government bodies from 1 April 2022. This Accounting Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

## Introduction

Following the previous deferrals of IFRS 16 Leases *in the public sector*, the Scottish Government has worked with central government bodies in Scotland in the implementation of this new accounting standard. It came into force for Scottish central government bodies on 1 April 2022.

IFRS 16 updates the definition of a lease to “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration”.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to a number of exemptions, as set out below.)

Key points that the Scottish Police Authority will need to consider in their financial statements in 2022/23 include:

- The need to recognise the cumulative effects of initially applying IFRS 16 on 1 April 2022 as an adjustment to the opening balances of taxpayers' equity. (Prior year comparators do not need to be restated).
- The need to recognise the right-of-use asset for leases previously classified as operating leases at an amount equal to the outstanding lease liability.
- No adjustments are needed for leases for which the underlying asset is of low value (less than £5,000 new) or where the lease term is less than 12 months.

- On transition, assets where there is no, or a below market rate, peppercorn lease premium should be recognised as a right-of-use asset measured at current value in existing use or fair value as appropriate. Any difference between this and the lease liability will be recognised as part of the adjustment to the opening balances of taxpayers' equity.

## The Scottish Police Authority's systems and processes

Where relevant, central government bodies will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

# Future auditing developments

There are changes to the following ISAs (UK) which will impact on our central government audits for the first time in future years.

Revised standards applicable for audits of financial statements for periods commencing on or after 15 December 2022 include:

- ISQM (UK) 2 (Issued July 2021) ‘Engagement Quality Reviews’
- ISA (UK) 220 (Revised July 2021) ‘Quality Management for an Audit of Financial Statements’

Revised standards are applicable for audits of financial statement for periods commencing on or after 15 December 2023.

A summary of the impact of the key changes on various aspects of the audit is included below:

| Area of change                                      | Impact of changes   |
|---|---|
| Quality control                                     | <ul style="list-style-type: none"> <li>• ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer (EQR) and the EQRs responsibilities relating to the performance and documentation of an engagement quality review.</li> <li>• The objective of the firm, through appointing an EQR, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.</li> <li>• The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements; and the auditor's report issued is appropriate in the circumstances.</li> </ul> |
| Direction, supervision and review of the engagement | <ul style="list-style-type: none"> <li>• Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.</li> </ul>  |
| Documentation                                       | <ul style="list-style-type: none"> <li>• The amendment to these auditing standards will result in additional documentation requirements to demonstrate how these requirements of these revised standards have been addressed.</li> </ul>  |



---

[grantthornton.co.uk](https://www.grantthornton.co.uk)

© 2023 Grant Thornton UK LLP. Confidential and information only.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.