

# Scottish Consolidated Fund

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for the Scottish Government  
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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of the Scottish Consolidated Fund. The main elements of our work include:

- an audit of the annual accounts of the Scottish Consolidated Fund and the issue of an Independent Auditor's Report setting out our audit opinions on the financial statements, regularity and other statutory information including the foreword and governance statement
- consideration of arrangements in relation to financial sustainability and the governance statement
- providing assurance on the Whole of Government Accounts (WGA) return.

## Audit Appointment

2. For the period 2022/23 to 2026/27 inclusive, Audit Scotland will continue to be the appointed auditor for the Scottish Consolidated Fund. Carole Grant has been appointed as engagement lead for the audit.

3. We use our initial assessment of risk to inform our planned audit approach and we keep it under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

## Adding value

4. We aim to add value to the Scottish Government by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and the Scottish Government

5. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Scottish Government. Key responsibilities are summarised below.

## Auditor responsibilities

**6.** Our responsibilities as independent 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.

**7.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements in place at the Scottish Government in respect of the Scottish Consolidated Fund. In doing this, we aim to support improvement and accountability.

## Scottish Government responsibilities

**8.** The Scottish Consolidated Fund receives sums which have been voted by the UK Parliament as well as receipts collected from other sources such as devolved taxes and Scottish Income Tax. Sums paid out of the Scottish Consolidated Fund are used to support spending plans approved by the Scottish Parliament in the annual Budget Act. The Scottish Government has stewardship of these funds and prepares the annual accounts of the Scottish Consolidated Fund, reflecting all payments into and out of the fund.

**9.** As noted above the Scottish Government is responsible for maintaining accounting records and preparing financial statements in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

**10.** In addition, the Scottish Government 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 their objectives.

# Audit planning

## Introduction

**11.** The Scottish Consolidated Fund annual accounts are an essential part of demonstrating the Scottish Government's stewardship of resources.

**12.** We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relevant to the production of the financial statements.

## Materiality

**13.** 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 determine with reasonable confidence 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 2022/23 audit

**14.** We assess materiality at different levels and the materiality values for the Scottish Consolidated Fund are set out in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for the Scottish Consolidated Fund

Materiality	Amount
<p><b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set based on our assessment of the needs of the users of the financial statements and the nature of the Scottish Consolidated Fund. For the year ended 31 March 2023 we have set our materiality at 2 per cent of judicial salaries based on the audited financial statements for 2021/22.</p>	£0.744 million
<p><b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75 per cent of planning materiality.</p> <p>In practice, due to the nature of the Scottish Consolidated Fund, we recognise that any payment that is not in accordance with applicable legislation would require us to report as part of our opinion on the financial statements.</p>	£0.558 million

Materiality	Amount
<b>Reporting threshold (i.e. clearly trivial)</b> – Due to the nature of the Scottish Consolidated Fund we are required to report all unadjusted misstatements to those charged with governance.	N/A

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**15.** Our risk assessment draws on our cumulative knowledge of the Scottish Consolidated Fund, its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management and a review of supporting information.

**16.** 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 audit. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

**17.** Based on our risk assessment process, we identified the following significant risk 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 risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance.

**Exhibit 2****2022/23 Significant risks of material misstatement to the financial statements**

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in every audit.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries or other adjustments.</li> <li>• Test journal entries and other adjustments during the financial year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Substantive testing of receipts and payments transactions.</li> <li>• Review any drawdowns made on the contingency fund.</li> </ul>

Source: Audit Scotland

**18.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. We have rebutted this risk for the Scottish Consolidated Fund due to the nature of the receipts in the account i.e. these are laid down in statute and are flows of funding arising from other accounts or legislation. As such we consider there to be a low risk of fraud in this area.

**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. We have rebutted this risk for the Scottish Consolidated Fund due to the nature of the payments in the account i.e. these are laid down in statute and are flows of funding arising from other accounts or legislation. As such we consider there to be a low risk of fraud in this area.

**20.** 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

**21.** As part of our assessment of audit risks, we have identified other areas of focus for our audit work. These are:

- the need for the linkages between supporting documents and the unaudited accounts to be further improved and documented fully to support the audit process.
- the changes to key personnel involved in the preparation of the accounts and to support the audit process. We are aware that the recruitment process is underway to find a permanent Head of Treasury and Banking.
- the need for further improvement to the governance statement and financial statements disclosure notes.

**22.** Based on our assessment of the likelihood and magnitude of these risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

**23.** Our work on the 2020/21 Whole of Government Accounts continues and we are currently awaiting responses from the Scottish Government. We shall conclude as soon as possible. The 2021/22 process will commence thereafter.

## Wider scope

**24.** The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider the adequacy of the arrangements in place.

**25.** The four wider scope areas are:

- Financial management
- Financial sustainability
- Vision, leadership and governance
- Use of resources to improve outcomes.

**26.** The Code of Audit Practice includes provisions relating to the audit of less complex bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.

**27.** Due to the nature of the Scottish Consolidated Fund, including the low volume and lack of complexity of the financial transactions, we have concluded that the less complex provision can be applied. We have not identified any risks in relation to the wider scope.



# Reporting arrangements, timetable and audit fee

## Reporting arrangements

**28.** Audit reporting is the visible output for the annual audit. All audit outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**29.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**30.** We will provide an independent auditor's report to the Scottish Government, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Scottish Government and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**31.** [Exhibit 3](#) outlines the target dates for our audit outputs. We aim to issue the independent auditor's report by the statutory deadline of 31 October 2023.

## Exhibit 3 2022/23 Audit outputs

Audit Output	Target date	Audit and Assurance Committee Date
Annual Audit Plan	28 February 2023	6 March 2023
Independent Auditor's Report	31 October 2023*	To be confirmed
Annual Audit Report	31 October 2023*	To be confirmed

Source: Audit Scotland

\* These dates represent the date for the independent auditor's report to be signed and the final annual audit report issued. We will provide copies to those charged with governance in advance of the appropriate Audit and Assurance committee to enable them to be considered.

## Timetable



**32.** To support an efficient audit, it is critical that the timetable for producing the unaudited annual accounts is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#).

**33.** The Covid-19 pandemic has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to return the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**34.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. Progress will be discussed with management over the course of the audit.

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### Exhibit 4 Proposed annual accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2023
Issue draft annual audit report for clearance discussion	15 September 2023
Latest date for final clearance meeting with the Scottish Government	22 September 2023
Agreement of audited and unsigned annual accounts	29 September 2023
Issue of annual audit report, letter of representation and proposed independent auditor's report to those charged with governance	3 October 2023
Consideration of audited annual accounts and audit reporting by those charged with governance	To be confirmed – October 2023
Independent auditor's report signed	31 October 2023
Latest date for WGA assurance	To be confirmed

Source: Audit Scotland

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## Audit fee

**35.** In determining the audit fee, we have taken account of the risk exposure of the Scottish Consolidated Fund and the planned management assurances in place. The audit fee for 2022/23 has been set at the baseline level of £24,570 (2021/22: £24,480). The audit fee assumes the provision of comprehensive and accurate accounts for audit in line with the agreed audit timetable.

**36.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or the absence of adequate supporting working papers, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

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# Other matters

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## Independence and objectivity

**37.** Auditors appointed by the Auditor General for Scotland must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

**38.** Audit Scotland has robust arrangements in place to ensure compliance with these 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.

**39.** The appointed auditor for the Scottish Consolidated Fund is Carole Grant, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Scottish Consolidated Fund.

## Audit Quality

**40.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**41.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**42.** Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. In addition, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**43.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the appointed auditor.

# Scottish Consolidated Fund

## Annual Audit Plan 2022/23

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

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

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