

Creative Scotland & Creative Scotland National Lottery Distribution Fund

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Creative Scotland & Creative Scotland National Lottery Distribution Fund

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Creative Scotland and its group as well as Creative Scotland National Lottery Distribution Fund. The main elements of our work include:

- Evaluation of the key controls within the main accounting systems
- An audit of the annual report and accounts, and provision of an Independent Auditor's Report
- An audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- Consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- Consideration of Best Value arrangements.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Creative Scotland and Creative Scotland National Lottery Distribution Fund for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks 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.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help promote

improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Creative Scotland

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Creative Scotland and Creative Scotland National Lottery Distribution Fund. Key responsibilities are summarised below.

Auditor responsibilities

7. 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.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements Creative Scotland has put in place. In doing this, we aim to support improvement and accountability.

Creative Scotland and Creative Scotland National Lottery Distribution Fund's responsibilities

9. Creative Scotland and Creative Scotland National Lottery Distribution Fund is responsible for:

- Maintaining accounting records and preparing financial statements that give a true and fair view
- 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.

Financial statements audit planning

Introduction

10. The annual report and accounts are an essential part of demonstrating Creative Scotland and Creative Scotland National Lottery Distribution Fund's stewardship of resources and its performance in the use of those resources.

11. 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 relating to the main financial systems relevant to the production of the financial statements.

Materiality

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

13. We assess materiality at different levels. The materiality values for Creative Scotland and its group and, Creative Scotland National Lottery Distribution Fund are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for Creative Scotland (CS) and its group, and the Creative Scotland National Lottery Distribution Fund (CSNLDF)

Materiality	CS	CS Group	CSNLDF
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the organisations' operations. For the year ended 31 March 2023 we have set our materiality at 2% of projected gross expenditure based on December 2022 management accounts for 2022/23.	£1.27 million	£1.3 million	£750,000

Materiality	CS	CS Group	CSNLDF
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£825,000	£845,000	£488,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£63,000	£65,000	£38,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

15. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

16. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This audit risk has 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 over the risk.

Exhibit 2

2022/23 Significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in 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>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

17. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

18. We have rebutted this risk as the majority of funding is received from the Scottish Government and National Lottery proceeds. This funding is clearly communicated and can be readily agreed to third party confirmations. In addition, the other income streams can be readily agreed to other confirmations including the British Film Institute and the various other UK Arts Councils as well as agreeing the annual recharge to Creative Scotland National Lottery Distribution Fund. We have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

20. We have rebutted this significant risk as the main expenditure streams can be readily forecast based on a predictable pattern of spend and mainly comprise a high volume of relatively low value items. Previously there was an increased risk of fraud relating to grant expenditure to provide support due to the impact of Covid-19. This is no longer the case and for 2022/23, Creative Scotland's grant-in-aid expenditure has returned to pre-pandemic levels and the level of risk in this area has reduced. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

21. We have not, therefore, incorporated specific additional work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

22. As part of our assessment of audit risks, we have identified one other area where we consider there is a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent significant risk as referenced in paragraph 20 above. We will keep this area under review as our audit progresses.

23. The area of specific audit focus is:

- **Grant expenditure / commitments** - As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. The vast majority of expenditure within Creative Scotland and Creative Scotland National Lottery Distribution Fund relates to the awarding of grants and the nature of this expenditure represents a risk of material misstatement in the financial statements.

Other matter

24. Creative Scotland is in the process of moving financial ledgers from Sage to Microsoft 365. The current planned go live date is May 2023. Whilst we are not aware of any current specific issues, there is a risk of disruption with system and data transfer changes of this nature. Consequently, we will seek information from Creative Scotland's Finance Team on the level of any impact and we will keep this area under review as our audit progresses.

Group Consideration

25. As Group auditors, we are required under International Standard on Auditing (ISA) (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

26. Creative Scotland has a group which comprises one component entity, Shorestage Limited, a wholly owned subsidiary. Our planned audit approach for the component is informed by our assessment of risk at Shorestage Limited and our consideration of the size and nature of its assets, liabilities and transaction streams.

27. The audit of the financial information of Shorestage Limited is performed by a separate audit firm, Chiene and Tait LLP. We plan to place reliance on the work of the component auditor.

28. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the component on which to base our group audit opinion.

Wider Scope and Best Value

Introduction

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

30. In summary, the four wider scope areas cover the following:

- **Financial management:** Means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial sustainability:** Means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. We will consider the extent to which audited bodies have shown regard to financial sustainability and are planning ahead effectively. We look at planning for the medium term (two to five years) and longer term (longer than five years). We will consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term.
- **Vision, leadership and governance:** Audited bodies must have a clear vision and strategy, and work together with partners and communities to improve outcomes and set priorities for improvement. We will consider the arrangements in place to deliver the vision, strategy and priorities adopted by Creative Scotland. We will also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** audited bodies must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how Creative Scotland and Creative Scotland National Lottery Distribution Fund demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

31. We have identified a wider scope audit risk in the areas set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3

2022/23 Wider scope risk

Description of risk	Sources of assurance	Planned audit response
<p>Financial Sustainability</p> <p>Public bodies continue to operate in an increasingly complex and challenging environment, where funding is reducing relative to rising demand and there is less certainty about budgets in the short to medium term.</p> <p>Creative Scotland is facing risks and challenges to its financial sustainability related to funding constraints relative to demand, and from its ability to effectively forward plan due to uncertainty and the timing of government funding streams.</p> <p>There remains a risk to financial sustainability in the medium to longer term.</p>	<ul style="list-style-type: none"> • 2023/24 budget prepared with 5-year outlook to 2027/28. • Plans for utilisation of reserves. • Effective budget monitoring by finance team. • Frequent re-forecasting of budgets. • Regular financial reporting to the Board and Finance and General Purposes Committee. • Further development of the Future Funding Framework including the Multi-Year Funding Programme. • Ongoing communication with Scottish Government sponsor division. 	<ul style="list-style-type: none"> • Review and assessment of annual budget setting arrangements. • Review the medium to longer term financial planning. • Report findings in our Annual Audit Report.

Source: Audit Scotland

32. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

Climate Change

33. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

34. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on the arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

35. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider the arrangements for managing and mitigating cyber security risks.

Duty of Best Value

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

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

38. 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.

39. We will provide an independent auditor's report to Creative Scotland and Creative Scotland National Lottery Distribution Fund, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide Creative Scotland and Creative Scotland National Lottery Distribution Fund and the Auditor General for Scotland with a single annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

40. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's reports by 16 November 2023 which is later than the target. Factors which have impacted on this include the delay in starting the 2022/23 audit cycle, the need to deliver a quality audit and capacity / resourcing / scheduling of our audits.

Exhibit 4

2022/23 Audit outputs

Audit Output	Target date	Audit & Risk Committee (ARC)	Board Date
Annual Audit Plan	31 March 2023	23 March 2023	N/A
Independent Auditor's Reports Annual Audit Report	31 October 2023	16 November 2023	27 November 2023


Source: Audit Scotland

Timetable

- 41.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.
- 42.** Covid-19 has had a considerable impact on the conduct and timeliness of audits. We recognise that it is in the best interests of public accountability to get 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.
- 43.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the complete unaudited annual report and accounts with working papers package	15 August 2023
Final clearance meeting with the Director of Finance	9 October 2023
Issue of draft Annual Audit Report to officers for review	13 October 2023
Issue of draft Letter of Representation, proposed Independent Auditor's Reports and Annual Audit Report (to Audit and Risk Committee)	6 November 2023
Agreement of audited and unsigned annual report and accounts	6 November 2023
Audit and Risk Committee meeting to consider Independent Auditor's Reports, Annual Audit Report and audited annual report and accounts	16 November 2023
Board meeting to approve and sign audited annual report and accounts	27 November 2023
Independent Auditor's Reports certified by appointed auditor	27 November 2023

Source: Audit Scotland

Audit fee

44. In determining the audit fee, we have taken account of the risk exposure of Creative Scotland and Creative Scotland National Lottery Distribution Fund and the planned management assurances in place. The agreed audit fees for 2022/23 are £62,460 for Creative Scotland (2021/22: £47,830) and £32,630 for Creative Scotland National Lottery Distribution Fund (2021/22: £24,990).

45. Our fees have increased in 2022/23 and this reflects the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

46. In setting the fee for 2022/23 we have assumed that Creative Scotland and Creative Scotland National Lottery Distribution Fund have effective governance arrangements. It is also assumed comprehensive, complete and accurate annual report and accounts, including complete performance reports and accountability reports, will be provided to audit in line with the agreed timetable. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

47. It is the responsibility of Creative Scotland and Creative Scotland National Lottery Distribution Fund to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

48. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

49. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

50. 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.

51. The appointed auditor for Creative Scotland and Creative Scotland National Lottery Distribution Fund is Esther Scoburgh, Senior Audit Manager. 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 audits of Creative Scotland and Creative Scotland National Lottery Distribution Fund.

Audit Quality

52. 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.

53. 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.

54. 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.

55. 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. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

56. 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 engagement lead.

Appendix 1: Your audit team

57. The audit team involved in the audit of Creative Scotland and Creative Scotland National Lottery Distribution Fund have significant experience in public sector audit across the various sectors.

Esther Scoburgh, Appointed Auditor / Senior Audit Manager	Esther has over 23 years of public sector audit experience and has managed and delivered external audit services to a range of bodies including local authorities and central government bodies.
Anne Marie Machan, Audit Manager	Anne Marie has over 23 years of public sector audit experience and has delivered external audit services to a range of bodies including health boards, local government bodies, and central government bodies. Anne Marie will manage the team and work alongside the Senior Audit Manager to deliver the audit.
David Fraser, Audit Officer	David has experience in planning and delivering audits. David will be the day to day contact for the audit.

58. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Creative Scotland & Creative Scotland National Lottery Distribution Fund

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

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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