

Scottish Fiscal Commission

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for the Scottish Fiscal Commission

April 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.
2. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.
3. The Code of Audit Practice includes provisions relating to the audit of small 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. In the light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2018/19 audit of the Scottish Fiscal Commission. However we recognise that, given the nature of the organisation, together with its risk and profile and stage in development, that there are some wider dimension risks in relation to financial management which in our view warrant specific wider scope work. This is detailed in Exhibit 1 below.
4. Between 2014 and March 2017, the Scottish Fiscal Commission operated on a non-statutory basis with its role being to independently assess the Scottish Government's forecasts of devolved tax revenues. Since 1 April 2017, the Scottish Fiscal Commission has operated as a statutory body responsible for providing independent forecasts. This role as an independent fiscal institution is becoming increasingly important. As new powers are devolved, it will be responsible for forecasting an even greater proportion of the Scottish Government's budget and social security spending.

Adding value

5. We aim to add value to the Scottish Fiscal Commission through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Scottish Fiscal Commission promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

6. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Scottish Fiscal Commission. We have categorised these risks into financial statement risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</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"> • Review of accounting estimates. • Detailed testing of journal entries. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. • Substantive testing of transactions after the year end to confirm expenditure and income have been accounted for in the correct financial year • Focused testing of accounting adjustments at the year-end.
<p>2 Financial Capacity</p> <p>In our 2017/18 Annual Audit Report we raised some concerns around financial capacity and experience.</p> <p>Staffing and accounts preparation processes for 2018/19 are being currently reviewed but have still to be confirmed.</p> <p>There is a risk that the financial statements are not prepared in accordance with the appropriate guidance or in line with the statutory timetable.</p>	<p>Year-end processes are being reviewed for 2018/19.</p> <p>Assistance from Scottish Government Accountancy Services will continue to be provided for the preparation of the annual accounts.</p> <p>The Chief Executive intends to present a recommendation to the ARC and Governance Board as to how the identified needs for financial expertise and training should be fulfilled.</p>	<ul style="list-style-type: none"> • We shall provide a working paper requirements checklist together with links to appropriate guidance. • Ongoing discussions with management over accounts preparation.
Wider dimension issues and risks		
<p>3 Financial management</p> <p>We reported in our 2017/18 annual audit report and identified as part of our 2018/19 audit planning processes some matters arising around financial management. These included:</p> <ul style="list-style-type: none"> • the accuracy of budget reporting against the tracker 	<p>Regular reconciliations between financial tracker and ledger.</p> <p>Regular budget control updates provided to Governance Board.</p> <p>Internal Audit are reviewing budgetary control arrangements.</p>	<ul style="list-style-type: none"> • Review of budgetary control updates. • Review of reconciliations between tracker and ledger • Review Internal Audit's work on budgetary control arrangements • Monitor progress on achievement of multi-year budgets and funding

	Audit Risk	Source of assurance	Planned audit work
	<ul style="list-style-type: none"> the effectiveness of budgetary control processes in communicating accurate and timely financial performance the operation of internal controls. <p>There is a risk that financial management is ineffective resulting in an overspend against budget.</p>		

Source: Audit Scotland

Reporting arrangements

7. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

8. 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 officer(s) to confirm factual accuracy.

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

10. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Fiscal Commission to be presented to Parliament within nine months of the financial year – end, i.e. 31 December.

Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	7 March 2019	13 March 2019
Annual Audit Report	30 August 2019	6 September 2019 (TBC)
Independent Auditor's Report	30 August 2019	6 September 2019 (TBC)

Source: Audit Scotland

Notional Audit fee

11. The agreed notional audit fee for the 2018/19 audit of the Scottish Fiscal Commission is £27,270 which is a decrease of £3,030 (11%) from the fee levied in 2017/18. (The 2017/18 audit fee consisted of the original agreed fee of £26,500 plus £3,800 additional fee levied). In determining the audit fee we have taken account of the risk exposure of the Scottish Fiscal Commission, the planned management assurances in place and the level of reliance we plan to take from the

work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts with a complete working papers package on 5 July 2019.

12. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, 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.

Responsibilities

Audit and Risk Committee and Accountable Officer

13. Audited bodies have 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 successfully deliver their objectives.

14. The audit of the annual accounts does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

Appointed auditor

15. 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.

16. 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 within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

17. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Scottish Fiscal Commission and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Scottish Fiscal Commission will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

18. We will give an opinion on whether the financial statements:

- give a true and fair view of the financial position of the Scottish Fiscal Commission and its expenditure for the year
- have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure
- the part of the Remuneration and Staff Report to be audited has been properly prepared
- information given in the Performance Report is consistent with the financial statements
- information given in the Governance Statement is consistent with the financial statements.

Other information in the annual accounts

19. We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

20. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

21. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

22. We calculate materiality at different levels as described below. The calculated materiality values for Scottish Fiscal Commission are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2019 based on the budget for 2018/19.	£32,000
Performance materiality – 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 calculated performance materiality at 30% of planning materiality.	£10,000
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. This has been calculated at 2% of planning materiality.	£1,000

Source: Audit Scotland

Timetable

23. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	5 July 2019
Latest date for final clearance meeting with Head of Strategy, Change and Corporate services	By 23 August 2019
Issue of Letter of Representation and proposed independent auditor's report	By 30 August 2019
Issue of Annual Audit Report to those charged with governance	By 30 August 2019
Independent auditor's report signed	9 September 2019 (TBC)

Internal audit

24. Internal audit is provided by Scottish Government Internal Audit Directorate. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). We will report any significant findings to management on a timely basis.

Using the work of internal audit

25. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. To support our wider dimension audit responsibilities we plan to consider Internal Audit's review of financial control processes and budgeting.

Independence and objectivity

26. Auditors appointed by the Accounts Commission or Auditor General 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. 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 Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

27. The engagement lead (i.e. appointed auditor) for Scottish Fiscal Commission is Mark Taylor, Audit Director. Auditing and ethical standards require the appointed auditor Mark Taylor 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 Fiscal Commission.

Quality control

28. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

29. 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 supporting 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 Scotland (ICAS) have been commissioned to carry out external quality reviews.

30. 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.

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