

# Scottish Land Commission

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for by Scottish Land Commission  
January 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 public sector audit's wider scope requirements.
2. Paragraph 53 of the Code requires the full wider scope of audit to apply to all bodies unless the auditor judges that it is not appropriate due to the size, nature and risks of the body. As a result of our initial planning work and in recognition of the Scottish Land Commission's (the Commission) size and value and the nature of transactions being processed, we intend to adopt a small body audit approach to the financial statements audit.
3. Our wider scope work will focus on the appropriateness of the disclosures in the governance statement and financial sustainability of the Scottish Land Commission over the medium to longer term. We note, however, that the Commission was only established in April 2017 and so due to its stage of development, we also plan to undertake specific work on budget monitoring and performance management arrangements as part of our wider scope work. See [Exhibit 1](#) below for details.

## Adding value

4. We aim to add value to the 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 Commission promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

5. 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 the Commission. We have categorised these risks into financial 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
<b>Financial statements issues and risks</b>		
<b>1 Management override of controls</b> 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.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	Detailed testing of journal entries. Review of accounting estimates. Evaluation of significant transactions that are outside the normal course of business.

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>2 Annual report and accounts preparation and audit</b></p> <p>The Commission does not employ a professionally qualified accountant and so is reliant on an external contractor to prepare the annual report and accounts on their behalf. The contractor has changed since the preparation of the 2017/18 annual report and accounts and there has also been a change in Office Manager who is our main contact for the audit process. There is a risk that the accounts will not be delivered to the required standards and by the agreed date, and that there will be delays in responding to audit queries which will impact on the delivery of the audit timetable.</p>	<p>Johnston Carmichael have been contracted to provide accounting advice including preparation of year-end accounts. Office Manager maternity cover in place with internal timetable for end of year requirements.</p>	<p>Regular discussions with the Accountable Officer to identify any ongoing issues in respect of capacity and the impact these may have on the preparation and audit of the financial statements.</p>
<p><b>3 Capitalisation of assets</b></p> <p>Last year we reported that, prior to the preparation of the financial statements, the Commission did not have a policy for the capitalisation of non-current assets and that our audit had identified a number of assets which should have been capitalised but were not. We are aware that the Commission has purchased additional IT equipment during 2018/19. There is a risk that this capital expenditure is not accounted for correctly in the 2018/19 financial statements.</p>	<p>Assets will be capitalised in line with the Commission's capitalisation policy.</p> <p>A fixed asset register and depreciation schedule will be prepared.</p>	<p>Review of disclosures and accounting policies in relation to non-current assets.</p> <p>Substantive testing of a sample of assets from the fixed asset register and depreciation schedule.</p>
<p><b>4 New payroll system</b></p> <p>With effect from 1 April 2018 payroll services have been provided by Cairngorms National Park Authority (CNPA). There is a risk that the new payroll system is not operating as intended resulting in misstatement within the financial statements.</p>	<p>The Commission provides CNPA with a monthly payroll memo detailing any changes that are required to that month's payroll.</p> <p>CNPA provide a payroll report provided back to the Commission to enable them to make the appropriate payments to staff.</p>	<p>An initial systems review will be undertaken to understand the controls in operation within the Commission to ensure the completeness and accuracy of payroll calculations.</p> <p>Additional substantive testing of payroll transactions to ensure the new payroll system produces reliable information for the financial statements.</p>
<p><b>5 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the work-in-progress of research contracts at the year end. This subjectivity represents an increased risk of misstatement in the accounts.</p>	<p>The work-in-progress value is assessed based on project plans, contracts and interim outputs.</p>	<p>Substantive testing of contracts in progress at year end.</p> <p>Review of project status and reasonableness of estimations and assumptions used when determining stages of completion.</p>

	Audit Risk	Source of assurance	Planned audit work
<b>Wider dimension issues and risks</b>			
<b>6</b>	<p><b>Financial sustainability</b></p> <p>The Commission's budgets are prepared and approved on an annual basis. Scenario planning is not used to model the impact of different funding levels. Without medium to longer term financial planning (including scenario planning), there is a risk that the Commission is not fully prepared for potential changes in its funding levels and that opportunities and risks may not be fully realised/mitigated.</p>	<p>Annual financial planning for 2019/20 will incorporate multi-year scenario planning with identification of likely impacts.</p>	<p>Review of budget setting process and 2019/20 budget paper presented to the Board.</p> <p>Comment within our annual audit report.</p>
<b>7</b>	<p><b>Performance management</b></p> <p>Last year we reported that the Commission had yet to finalise its performance management framework and associated key performance indicators (KPIs). In the absence of a well-developed performance management framework, there is a risk that delivery of the Commission's activities and the objectives set out in the strategic plan is not adequately monitored and reported.</p>	<p>Performance monitoring support contract in place to identify interim outcomes and baseline data.</p> <p>KPIs included within the 2019/20 Business Plan subject to quarterly monitoring.</p>	<p>Review of the performance management framework and associated KPIs.</p> <p>Comment within our annual audit report.</p>
<b>8</b>	<p><b>Budget monitoring</b></p> <p>The Commission continues to refine its approach to budget monitoring and revised the format of its quarterly budget monitoring reports during 2018/19. The latest report (as at September 2018) highlights that £0.2 million (15%) of the budget is uncommitted but it is not clear how much of this will be spent by the year end. There is a risk that projects are selected to maximise budget spend rather than impact.</p>	<p>Early consideration of priorities and options for additional spend.</p> <p>Monthly monitoring of spend and projected outturn by management team.</p> <p>Quarterly monitoring of budget by ARC and Commissioners.</p>	<p>Review of quarterly budget monitoring reports and the more detailed budget monitoring papers held by the management team.</p> <p>Review of outturn against budget and profile of spend during the year.</p> <p>Comment within our annual audit report.</p>

Source: Audit Scotland

## Reporting arrangements

**6.** 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](http://www.audit-scotland.gov.uk).

**7.** 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.

**8.** We will provide an independent auditor's report to the Scottish Land Commission, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. In addition, 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.

## Exhibit 2

### 2018/19 audit outputs

Audit Output	Target date	Committee date
Annual Audit Report	19 August 2019	02 September 2019 (Audit & Risk Committee)  03 September 2019 (Commissioners' meeting)
Independent Auditor's Report	03 September 2019	N/A

Source: Audit Scotland

### Audit fee

**9.** The agreed audit fee for the 2018/19 audit of the Commission is £24,500 (2017/18: £25,000). In determining the audit fee we take into account that the Commission is still developing and establishing itself as an organisation, its risk exposure, 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 3 June 2019.

**10.** 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

**11.** 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.

**12.** The audit of the financial statements does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

**13.** 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.

**14.** Auditors in the public sector give an independent opinion on the financial statements and other information accompanying the financial statements. 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 report and accounts

**15.** The annual report and 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 Land 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 Land 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.

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

- give a true and fair view of the state of affairs of the Commission as at 31 March 2019 and of its net expenditure for the year then ended
- have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of income and expenditure.

## Other information in the annual report and accounts

**17.** We also review and report on other information published within the annual report and accounts including the performance report, governance statement and 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.

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

## Materiality

**19.** 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.

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



## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – 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.	£28,000
<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 calculated performance materiality at 50% of planning materiality.	£14,000
<b>Reporting threshold (i.e., clearly trivial)</b> – 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 4% of planning materiality.	£1,000

Source: Audit Scotland

## Timetable

**21.** To support the efficient use of resources it is critical that a timetable is agreed with us for the preparation and audit of the annual report and accounts. [Exhibit 4](#) sets out the agreed timetable which takes account of submission requirements and planned Audit and Risk Committee dates.

## Exhibit 4

### Annual report and accounts timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	03 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	03 June 2019
Agreement of audited unsigned annual accounts; and issue of Annual Audit Report to those charged with governance	19 August 2019
Independent auditor’s report signed (following Commissioners’ meeting)	03 September 2019

## Internal audit

**22.** Internal audit is provided by BDO. 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

**23.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources and so we seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to take a substantive approach to the audit of the Commission’s financial statements and to consider internal audit’s work on risk management and financial control processes as part of our wider dimension audit responsibilities.

## Audit dimensions

**24.** 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.

**25.** As noted at paragraph 2, 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 Commission. As noted above at paragraph 3 we will also undertake specific work on budget monitoring and progress made in developing the Commission's performance management arrangements.

## 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 the Commission is Maggie Bruce, 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 audit of the 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.

# Scottish Land Commission

## Annual Audit Plan 2018/19

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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