

Scottish Consolidated Fund

Annual Audit Plan 2018/19



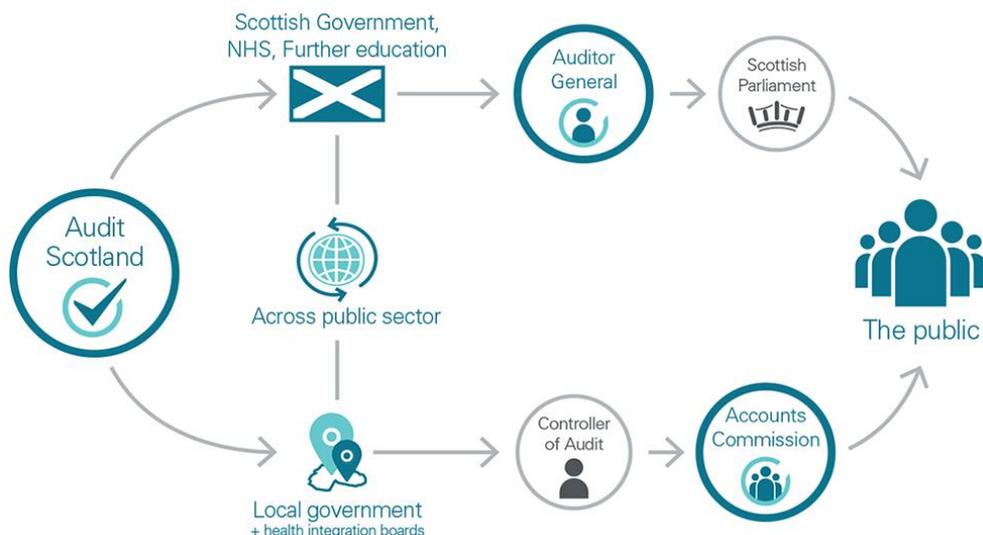
 AUDIT SCOTLAND

Prepared for the Scottish Government
March 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. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within audited bodies to manage performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.
2. The Scottish Consolidated Fund (the SCF) receives sums which have been voted by the UK Parliament as well as receipts collected from devolved taxes. Sums paid out of the SCF 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 SCF, reflecting all payments into and out of the fund.
3. 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 \(CoAP\)](#), 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.

Audit dimensions

4. Our audits are based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#). Due to the nature of the SCF and the relatively small number of transactions processed we have determined that the SCF meets the criteria laid down by the Code of Audit Practice (CoAP) to be classified as a small audited body. In line with CoAP guidance our audit dimensions work will therefore focus on financial sustainability and governance and transparency.

Exhibit 1 Audit dimensions



Financial sustainability

5. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the SCF's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term

Governance and transparency

6. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial information. We will review, conclude and report on:

- whether the Scottish Government can demonstrate that the governance arrangements in place for the SCF are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency in decision making and finance reports
- the quality and timeliness of financial reporting.

Adding value

7. We aim to add value to the Scottish Government 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 Government promote high standards of governance management and decision making and effective use of resources.

Audit risks

8. 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 SCF. 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 2](#).

Exhibit 2 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"> • Detailed testing of journal entries. • Testing of all transactions.
<p>2 Risk of fraud over receipts and payments</p>	<p>Sound control and monitoring arrangements.</p>	<ul style="list-style-type: none"> • Testing of all transactions • Engagement with other auditors for Revenue

Audit Risk	Source of assurance	Planned audit work
<p>ISA 240 presumes a risk of fraud in regard to revenue recognition in the financial statements in any audit. Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA assumption to aspects of expenditure.</p> <p>The SCF receives significant receipts from several sources including from fee and charges funding. The extent and complexity of receipts means that, in accordance with ISA 240, there is an inherent risk of fraud. Judicial salaries which are paid out of the SCF also mean that there is a risk of fraud over payments.</p>		<p>Scotland and Crown Estate Scotland.</p>
<p>3 Business continuity risks for the SEAS accounting system</p> <p>The SEAS accounting system is used by the Scottish Government and many other public bodies as the main financial ledger. Our audit planning work highlighted some potential issues around the functionality and continuity of the system.</p> <p>There is an audit risk that the system does not function as required, the controls are compromised, and preparation of the annual accounts is adversely affected.</p>	<p>Long-term system replacement plans to be prepared.</p>	<ul style="list-style-type: none"> • Reliance on key controls testing of the SEAS system carried out as part of the Scottish Government audit. • Ongoing engagement with corporate reporting and financial services teams.

Wider dimension issues and risks

<p>4 Transparency of financial reporting</p> <p>Under powers granted by the Scotland Act 2016, capital borrowing undertaken by the Scottish Government flow through and are disclosed in the SCF accounts. Repayments are made from the SCF. The liability to repay the loan was not recognised in the SCF accounts presented for audit during 2017/18 as it is a receipts and payment account in the Public Finance and Accountability Act (Scotland) 2000. For 2017/18 an interim measure of additional disclosures in the form of a Statement of Balances was agreed to show debt and cash held.</p> <p>There is a risk that current financial reporting structures are not sufficient to transparently report the assets and liabilities that arise from the Scottish Government's use of its borrowing powers.</p>	<p>Statement of balances included in 2017/18 SCF account.</p> <p>Borrowing liabilities referenced in the 2017/18 Scottish Government consolidated accounts.</p>	<ul style="list-style-type: none"> • Engagement with the Scottish Government to agree whether a separate loan fund account is required to show the borrowing more fully, and if so, what legislation would be required to support this reporting.
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Source: Audit Scotland

Reporting arrangements

9. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

10. 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.

11. We will provide an independent auditor's report to the Scottish Government, Scottish Parliament and the Auditor General for setting out our opinions on the Scottish Consolidated Fund annual. 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 3 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	February 2019	11 March 2019
Annual Audit Report	September 2019	23 September 2019
Independent Auditor's Report	September 2019	23 September 2019

Source: Audit Scotland

Audit fee

12. The proposed audit fee for the 2018/19 audit of the Scottish Consolidated Fund is £22,940 [2017/18 £22,290]. In determining the audit fee we have taken account of the risk exposure of the Scottish Consolidated Fund, 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 28 June 2019.

13. 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

Assurance and Audit Committee and Accountable Officer

14. 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.

15. The audit of the annual accounts does not relieve management or the Scottish Government Assurance & Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

16. 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.

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 operation of the SCF 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
- 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:

- properly present in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers the receipts and payments of the fund for the year ended 31 March 2018 and the balances held at that date;
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the regularity of the receipts and payments into and out of the fund.



characteristics



responsibilities



principal activities



risks



governance arrangements

Other information in the annual accounts

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

Materiality

20. 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.

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

Exhibit 3

Materiality values

Materiality	Amount
<p>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 one per cent of judicial salaries (one of the key elements within the Scottish Consolidated Fund) for the year ended 31 March 2018 based on the latest audited accounts.</p>	£0.32 million
<p>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 75 per cent of planning materiality.</p> <p>Although we set at 75 per cent of planning materiality, in practice, due to the nature of the account, we test all receipts and payments into and out of the fund, recognising 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>	£0.24 million
<p>Reporting threshold – For this audit, we have determined that we are required to report to those charged with governance on all unadjusted misstatements.</p>	

Source: Audit Scotland

Timetable

22. 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	28 June 2019
Latest date for final clearance meeting with Scottish Government	30 August 2019
Agreement of audited unsigned annual accounts and issue of annual audit report including ISA 260 report to those charged with governance	9 September 2019
Issue of Letter of Representation and proposed independent auditor's report	16 September 2019
Independent auditor's report signed	24 September 2019
Latest date for signing of WGA return	27 September 2019

Internal audit

23. 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 and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by

the Scottish Government Internal Audit Directorate (IAD) overseen by the Director of Internal Audit.

Using the work of internal audit

24. We read all internal audit reports to inform our ongoing understanding of the SCF, but we do not intend to place reliance on internal audit's work in 2018/19 as we plan to take a fully substantive approach to the audit.

Independence and objectivity

25. 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.

26. The engagement lead and appointed auditor for the SCF is Stephen Boyle, Audit Director. Auditing and ethical standards require the appointed auditor, Stephen Boyle 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 SCF.

Quality control

27. 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.

28. 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.

29. 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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