

Scottish Consolidated Fund

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

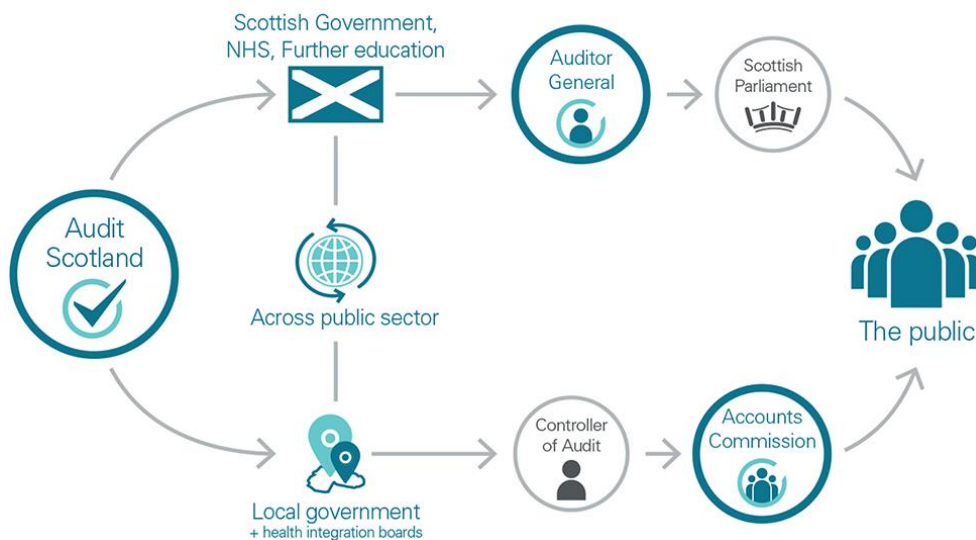
Prepared for The Scottish Government

June 2020

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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Audit risks and planned work

1. 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.
2. This annual audit plan contains an overview of the planned scope and timing of our audit of the SCF which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#).
3. We fully recognise the unique and significant pressures that the public sector is under in responding to the threat posed by the current Covid-19 pandemic. Our approach to audit during the current Covid-19 pandemic aims to be flexible, pragmatic and consistent. It will be some time before we fully understand the impact on public services and finances but it is clear that sound financial management and effective governance are more important than ever. Audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances and we will prioritise quality and independence.
4. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.
5. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money. Audit Scotland considers that the importance of wider audit scope work on the dimensions of financial management, financial sustainability and governance has never been greater than during the current crisis. The level of audit reporting may alter to reflect current circumstances for example, where it has not been possible to carry out planned work or where an issue has taken on greater significance than in previous years.

Adding value

6. We aim to add value to the Scottish Consolidated Fund 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 improved standards of governance, better management and decision making and more effective use of resources.
7. We undertook the majority of our planning work prior to the Covid-19 pandemic and the draft audit plan was shared with the Scottish Government in March 2020. We have since revisited the plan to consider the potential impact of the Covid-19 pandemic on our audit approach for 2019/20. The ongoing uncertainty created by the pandemic and the current restrictions imposed means we may be required to make further changes to the planned audit approach and timetable. We will continue our regular engagement with the Scottish Government to discuss how we can work together to respond to this unprecedented situation.

Audit risks

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

Exhibit 1 2019/20 Significant audit risks

| Risk | Source of assurance | Planned audit work |
|--|--|---|
| Financial statements risks | | |
| <p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p> | Owing to the nature of this risk, assurances from management are not applicable in this instance. | <ul style="list-style-type: none"> Detailed testing of journal entries. Testing of all transactions. |
| <p>2 Risk of fraud over income</p> <p>ISA 240 presumes a risk of fraud in regard to revenue recognition in the financial statements in any audit.</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.</p> | Sound control and monitoring arrangements. | <ul style="list-style-type: none"> Testing of all transactions Engagement with other auditors for Revenue Scotland and Crown Estate Scotland. |
| <p>3 Risk of fraud over expenditure</p> <p>Practice Note 10 from the Financial Reporting Council and the Code of Audit Practice requires public sector auditors to give consideration to the risk of fraud over expenditure.</p> <p>The extent of expenditure, including judicial salaries, which are paid directly from the SCF, means there is an inherent risk of fraud.</p> | Sound control and monitoring arrangements. | <ul style="list-style-type: none"> Testing of all transactions |
| Wider dimension risks | | |
| <p>4 Transparency of financial reporting</p> <p>Capital borrowing undertaken by the Scottish Government flows through the SCF and all repayments are made from the fund. In-year borrowing and outstanding amounts to be repaid are disclosed in a Statement of Balances in the SCF account.</p> <p>There is a risk that the current financial reporting structure is not sufficient to transparently report the assets and</p> | <p>Source of borrowing to date (National Loans Fund) is straightforward.</p> <p>Statement of Balances included in the 2018/19 SCF account.</p> <p>Repayment of borrowing schedule included in the 2018/19 Scottish Government consolidated</p> | <ul style="list-style-type: none"> Engagement with the Scottish Government regarding improving transparency of the reporting of capital borrowing. |

liabilities that arise from the Scottish Government's use of its borrowing powers. This will become more complex as the sources and levels of borrowing increase.

accounts, and reference to the reporting of borrowing in the SCF account.

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 2](#), 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 reports will be issued to the relevant officer(s) to confirm factual accuracy.

11. We will provide an independent auditor's report to Scottish Consolidated Fund, 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.

Exhibit 2 2019/20 Audit outputs

| Audit Output | Target date | Proposed Committee Date |
|------------------------------|---------------|-------------------------|
| Annual Audit Plan | June 2020 | 22 June 2020 |
| Independent Auditor's Report | December 2020 | 8 December 2020 |
| Annual Audit Report | December 2020 | 8 December 2020 |

Source: Audit Scotland

Audit fee

12. The proposed audit fee for the 2019/20 audit of the Scottish Consolidated Fund is £23,400 [2018/19 £22,290]. In determining the audit fee we have taken account of the risk exposure of 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 Scottish Consolidated Fund Accounts, with a complete working papers package on 26 June 2020. The current restrictions imposed in responding to the pandemic mean that the nature of audit activity will inevitably change as auditors are required to work remotely. We will continue to liaise with Scottish Government staff about how they can best provide us with the information required for our audit work in these circumstances.

13. Where our audit cannot proceed as planned through, for example, late receipt of unaudited Scottish Consolidated Fund 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 Principal 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 Scottish Consolidated Fund 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.

17. 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

18. 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
- 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.

19. 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 2019 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.

Other information in the annual accounts

20. 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

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 the SCF Scottish Consolidated Fund 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 2019 based on the latest audited accounts.</p> | £0.33 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> | £0.25 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

23. The annual accounts timetable is outlined at [Exhibit 4](#). Due to the lockdown in response to the Covid-19 pandemic, we are unable to audit supporting documentation (transaction records) remotely and therefore the audit timetable has been extended to December. These revised dates outlined in [Exhibit 4](#) remain within statutory deadlines. In the event that lockdown restrictions are lifted after we receive the unaudited accounts, this would allow us access to underlying records for the SCF, and we will aim to complete the audit earlier.

24. The ongoing uncertainty created by the pandemic and the current restrictions imposed means we may be required to make further changes to the timetable. We will continue to assess the timescales in dialogue with the Scottish Government and will keep the Audit and Assurance Committee updated with our audit progress.

Exhibit 4

Annual accounts timetable

|  Key stage |  Date |
|---|--|
| Latest submission date of unaudited annual report and accounts with complete working papers package | 29 June 2020 |
| Latest date for final clearance meeting with Scottish Government | 11 November 2020 |
| Issue of Letter of Representation and proposed independent auditor's report | 25 November 2020 |
| Independent auditor's report signed | 9 December 2020 |
| Latest date for signing of WGA return | 18 December 2020 |

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 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

26. 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 2019/20 as we plan to take a fully substantive approach to the audit.

Audit dimensions

27. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

28. 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 2019/20 audit of the SCF. We will therefore focus on financial sustainability and governance and transparency.

Financial sustainability

29. 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

30. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance 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.

Independence and objectivity

31. 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.

32. The engagement lead for the SCF is Michael Oliphant, Audit Director. Auditing and ethical standards require us 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

33. 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.

34. 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.

35. 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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