

# Scottish Government

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

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1. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the 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.
2. The Scottish Government's consolidated accounts report the financial outturn compared to spending plans of Scottish Ministers as set out in the annual budget approved by the Scottish Parliament in the Budget (Scotland) Act.
3. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#).
4. 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 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 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.
5. This plan sets out the work necessary to allow us to provide an independent auditor's report on the consolidated accounts and meet the wider scope requirements of public sector audit.
6. 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

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 improved standards of governance, better management and decision making and more 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 significant risks for the Scottish Government. 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](#).

9. 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.

## Exhibit 1

### 2019/20 Significant audit risks

Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement caused by management override</b></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>	<ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> <li>Consider internal audit reports.</li> <li>Consider the results of controls testing.</li> </ul>
<p><b>2 Risk of material misstatement caused by fraud over expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Given the high volume and diverse nature of expenditure incurred by the Scottish Government, there is a risk of fraud over expenditure.</p>	<ul style="list-style-type: none"> <li>The nature of arrangements means that the majority of Scottish Government expenditure is providing funding to other public bodies.</li> <li>Sound budgetary control and monitoring arrangements.</li> <li>Internal audit reports.</li> <li>Oversight by the Corporate Board.</li> </ul>	<ul style="list-style-type: none"> <li>Perform detailed testing of significant transactions, particularly around the financial year end.</li> <li>Carry out analytical procedures.</li> <li>Monitor budgetary process and reporting.</li> <li>Consider any internal audit reports.</li> </ul>
<p><b>3 Estimation and judgements</b></p> <p>There are significant degrees of management estimation in the measurement, valuation and disclosures of a number of material account areas, including student loans,</p>	<ul style="list-style-type: none"> <li>Management exercise judgement in line with accounting standards.</li> <li>Non-statutory guarantees or indemnities in excess of £1 million require the</li> </ul>	<ul style="list-style-type: none"> <li>Review of the student loans model (assumptions and application).</li> <li>Focussed substantive testing.</li> </ul>

Risk	Source of assurance	Planned audit work
<p>investments, contingent liabilities, financial guarantees and provisions.</p> <p>Specifically in relation to student loans, the assumptions used in the valuation model are highly dependent on the macroeconomic environment and as such are likely to vary in the short term.</p> <p>Estimations and judgements create a higher risk that material areas in the accounts could be misstated.</p>	<p>approval of the Scottish Parliament.</p> <ul style="list-style-type: none"> <li>• A record of all contingent liabilities, guarantees, indemnities and letters of comfort is maintained, updated and reviewed by management.</li> <li>• Evaluation of guarantees involves financial modelling to simulate sources of uncertainty.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the identification of and record of contingent liabilities, guarantees, indemnities and letters of comfort.</li> <li>• Test assumptions in contingent liability financial modelling.</li> <li>• Review the disclosure of student loans, investments, contingent liabilities, guarantees etc.</li> </ul>
<p><b>4 Support to private companies – valuation of investments and provisions</b></p> <p>In recent years, the Scottish Government has taken a direct role in providing financial support to private companies in addition to support provided through its enterprise agencies. This includes:</p> <ul style="list-style-type: none"> <li>• Loan facilities of £45m and subsequent purchase of Ferguson Marine Engineering Limited (FMEL) – impaired to £nil in 2018/19</li> <li>• Loan facilities of up to £51m to Burntisland Fabrications Limited (BiFab) - £37.4m drawn down and converted to equity, impaired to £2m in 2018/19</li> <li>• Financial Guarantee to Lochaber hydro plant and aluminium smelter – annual fee financial asset impaired to £nil and expected credit losses provision of £33m in 2018/19</li> </ul> <p>The valuations of these assets and liabilities can be uncertain and complex which means that there is an increased risk of misstatement in the consolidated accounts. This audit risk is further heightened with the impact of Covid-19 on the economy and the material uncertainty of valuations at 31 March 2020.</p>	<ul style="list-style-type: none"> <li>• Valuation reviews carried out by the Scottish Government.</li> <li>• External advisors appointed in relation to investments.</li> <li>• Non-statutory guarantees or indemnities higher than £2.5 million require the approval of the Scottish Parliament</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement with officers to discuss proposed approach to valuation of investments and financial guarantee provision for 2019/20.</li> <li>• Consideration of valuation reviews carried out by the Scottish Government.</li> <li>• Consider use of auditor’s experts to support our audit judgements.</li> <li>• Review of reports from the Scottish Government’s external advisers.</li> </ul>
<p><b>5 Group audit considerations</b></p> <p>The Scottish Government consolidated accounts are group accounts which include the financial results of all bodies within the Scottish Government</p>	<ul style="list-style-type: none"> <li>• Established consolidation process in place.</li> <li>• Statutory audits of component bodies.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing engagement with component auditors.</li> <li>• Guidance and information requests issued to component</li> </ul>

Risk	Source of assurance	Planned audit work
<p>accounting boundary. This means we have to ensure there are appropriate arrangements in place to confirm the information is audited appropriately and consolidated correctly. There are associated risks for 2019/20 including:</p> <ul style="list-style-type: none"> <li>• The impact of the Covid-19 pandemic may lead to delays or difficulties in the preparation and audit of component bodies' accounts which may impact on the timing, preparation and audit of the group accounts.</li> <li>• The auditor's opinion on the 2018/19 accounts of Social Security Scotland was qualified. The auditor was unable to obtain evidence regarding the regularity of Carer's Allowance Benefit expenditure of £151.7m. We assessed the impact on the consolidated accounts and concluded that the level of error was unlikely to be material. The Carer's Allowance forecast expenditure for 2019/20 has increased to £283m therefore we will need to re-assess the impact of the audit opinion on the Social Security Scotland's accounts on the Scottish Government's consolidated accounts.</li> </ul>		<p>auditors to support group audit procedures.</p> <ul style="list-style-type: none"> <li>• Review of consolidation packs received.</li> </ul>
<p><b>6 European Social Fund 2014-20</b></p> <p>The European Social Fund programme was placed in suspension in November 2019. The Scottish Government and lead partners did not fully resolve all outstanding audit queries to the EC's satisfaction following a range of concerns over the management of the programme.</p> <p>The Scottish Government is reviewing existing claims deemed ineligible (£25m) and continuing work to reintroduce them as eligible. They expect the full amount to become eligible but timing is uncertain over how long the suspension will last.</p> <p>There is a risk that expenditure deemed ineligible may not be recovered or that the European Commission could impose financial penalties.</p>	<ul style="list-style-type: none"> <li>• Internal audit reports (as audit authority)</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing engagement with the Scottish Government to review progress made in addressing the recommendations.</li> <li>• Review of provisions and contingencies.</li> <li>• Review appropriateness of disclosures in the Consolidated Accounts about potential irrecoverable amounts.</li> </ul>

Risk	Source of assurance	Planned audit work
<b>Wider dimension risks</b>		
<b>Financial management</b>		
<p><b>7 Forecast financial outturn</b></p> <p>As at January 2020, the Scottish Government is predicting a £66 million fiscal resource forecast underspend for the 2019/20 financial year, having previously predicted a resource overspend. This is attributed to a number of one-off events including unspent Brexit consequential, transfer of Registers of Scotland reserves and transfers from revenue to capital for the capitalisation of some staff costs. There is a risk that the Scottish Government is relying on one-off events to meet its budget rather than managing spending in line with good quality forecasts.</p>	<ul style="list-style-type: none"> <li>Finance Reports to the Corporate Board and Assurance Groups</li> </ul>	<ul style="list-style-type: none"> <li>Testing of expenditure transactions re-classified as capital to ensure that there is sufficient and reliable evidence to support the treatment as capital.</li> <li>Review Finance Reports to the Corporate Board.</li> </ul>
<b>Financial sustainability</b>		
<p><b>8 Medium-term financial strategy</b></p> <p>In our 2018/19 Annual Audit Report, we noted that the Scottish Government's second medium-term financial strategy, Scotland's Fiscal Outlook, published in May 2019, does not reflect all the basic components of a medium-term financial plan. It does not include indicative spending plans or priorities, or links to outcomes and there is no detail on how the Scottish Government would address the possible £1 billion shortfall.</p> <p>The Scottish Government has postponed the publication of an updated medium term financial strategy planned for May 2020 in light of the pressures and uncertainty created by the current pandemic</p> <p>With the absence of high-level financial plans, priorities and scenarios, there is a risk that it will make the Parliament's scrutiny of the forthcoming 2020/21 budget more difficult. This is particularly challenging when considering the impact of changes in spending patterns on outcomes set out in the National Performance Framework</p>	<ul style="list-style-type: none"> <li>The strategy is prepared following the written agreement between the Parliament's Finance and Constitution Committee and the Scottish Government, reflecting the recommendations made by the Budget Process Review Group.</li> <li>The Scottish Government have agreed to consider audit recommendations during the development of further publications.</li> <li>The Summer Budget Revision 2020-21 outlines the Covid-19 funding commitments to support Parliament's scrutiny of the budget.</li> </ul>	<ul style="list-style-type: none"> <li>Review of development of medium term financial strategy in further publications.</li> <li>Engagement with the Scottish Government to help further develop a robust medium term financial strategy that becomes a central part of the government's financial decision-making.</li> </ul>

Risk	Source of assurance	Planned audit work
<b>Governance and transparency</b>		
<p><b>9 Changes to governance arrangements in response to Covid-19</b></p> <p>In March 2020, the Scottish Government revised its governance arrangements to support their response to the Covid-19 pandemic.</p> <p>Added to this, there are permanent changes expected to senior roles within the Scottish Government over the next few months in the roles of Director-General for Health and Social Care and Chief Financial Officer.</p> <p>As with any changes to governance arrangements or key personnel, there is a risk that revised arrangements may not have the intended impact which can result in ineffective risk management, reduced internal controls or poor decision making.</p>	<ul style="list-style-type: none"> <li>• Revised Corporate Governance Manual</li> <li>• Internal Audit plan to review the governance arrangements</li> <li>• Early and open engagement with audit team</li> </ul>	<ul style="list-style-type: none"> <li>• Review the changes made to governance arrangements</li> <li>• Engagement with Internal Audit</li> <li>• Engagement with Permanent Secretary, Director Generals and Non-Executive Directors (NXDs)</li> <li>• Attendance at DG Assurance and Scottish Government Audit and Assurance Committee (SGAAC) meetings</li> <li>• Review of DG Assurance papers, SGAAC papers and other relevant papers</li> </ul>
<p><b>10 Scottish Government's Audit and Assurance Committee</b></p> <p>In our 2018/19 Annual Audit Report, we reported that there is a need for the Audit and Assurance Committee to provide greater scrutiny and challenge to support the advice and assurances given to the Permanent Secretary as the Principal Accountable Officer. Without appropriate levels of scrutiny and challenge, there is a risk that the advice or assurances given to the Permanent Secretary may not be as accurate, informed or as comprehensive as they should be.</p> <p>In December 2019, the Committee presented the results of its own review which included a number of recommendations for improvement. The Committee also agreed for a detailed implementation plan to be developed in 2020.</p>	<ul style="list-style-type: none"> <li>• Corporate Governance Manual.</li> <li>• Recent Non Executive Directors (NXDs) appointments.</li> <li>• Risk management framework.</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement with NXDs including chair of SGAAC.</li> <li>• Attendance at SGAAC meetings.</li> <li>• Review of progress with implementation plan and recommendations</li> <li>• Engagement with Internal Audit.</li> <li>• Review of Governance Statement.</li> <li>• Review changes made to governance arrangements in response to Covid-19</li> </ul>
<p><b>11 Investment in core systems</b></p> <p>There has been a lack of investment in core IT systems of the Scottish Government. The risk that the current systems will not be able to cope with the expanding demands placed on</p>	<ul style="list-style-type: none"> <li>• Proposals for a significant increase in digital / ICT investment in core operating systems to be considered as part of the 2020/21 Scottish Budget.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor actions taken to address risks via Corporate Risk Register.</li> <li>• Test key internal controls for the main IT systems that</li> </ul>

Risk	Source of assurance	Planned audit work
<p>them is recognised by the Scottish Government.</p> <p>Our audit reports in 2018/19 highlighted issues and risks from our audit work carried out on the main IT systems that impact on the financial statements, including SEAS General Ledger, payroll and procurement. These include cyber security risks as well as risks of system failure or fraud and error.</p>	<ul style="list-style-type: none"> <li>• Long term system replacement plans to be prepared.</li> <li>• Work continues on IT Security Policy re-development and alignment with the latest National Cyber Security Centre guidelines.</li> </ul>	<p>impact on the financial statements.</p>
<p><b>12 Scottish public sector accounts</b></p> <p>The Scottish Government has committed to producing a consolidated account to cover the whole public sector in Scotland. As part of our 2018/19 audit, we recommended that the Scottish Government should quicken the pace of development in this area.</p> <p>This is important for decision making over the longer term as it will provide important information about the impact of past decisions on future budgets, the scale of liabilities, and potential risks to financial sustainability. In the absence of such an account, there is a risk of significant financial decisions being made- without a clear picture of what is owned and owed by the wider public sector in Scotland.</p>	<ul style="list-style-type: none"> <li>• Final plan to be agreed for audit and publication.</li> <li>• Draft accounts passed to Audit Scotland for comment.</li> <li>• Work is ongoing on the 2018/19 data collection and review.</li> </ul>	<ul style="list-style-type: none"> <li>• Continued engagement with officials to understand the reporting basis that will be selected by officials for the account, so that we can continue to develop our audit approach for the first set of accounts.</li> <li>• Engagement to produce plan for audit and publication.</li> </ul>
<b>Value for money</b>		
<p><b>13 Financial interventions</b></p> <p>As noted previously, the Scottish Government has taken a direct role in providing financial support to private companies in recent years. The need to develop a clear framework to outline the Scottish Government's approach to providing such support was highlighted in our audit report presented to Scottish Parliament in October 2019. The creation of such a framework would allow better scrutiny of financial intervention decisions, including the opportunities and risks, and provide greater transparency over decisions. In the absence of such a framework, there is a risk that value for money may not be obtained from such interventions.</p>	<ul style="list-style-type: none"> <li>• Further updates to economic policy and SPFM will be considered as necessary.</li> </ul>	<ul style="list-style-type: none"> <li>• Discuss progress against the recommendation with Scottish Government officials.</li> <li>• Review any further updates to the SPFM and related guidance.</li> </ul>

**10.** As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risks of material misstatement caused by fraud in income recognition in 2019/20 because the majority of income (96%) relates to Scottish Consolidated Fund drawdowns (using 2018/19 data). Of the remaining 4% (£1,612m), £996m relates to core SG income. For the purpose of evaluating how material income transactions could be, we analysed the income balance and it was established that the only significant balances related to Scottish Water National Loan Fund repayments and EU Support. As such, income from sources other than SCF drawdowns is not material. We will monitor the income position to assess if the trend is similar for the 2019/20 data.

## Reporting arrangements

**11.** 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).

**12.** 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.

**13.** The Auditor General for Scotland will provide an independent auditor's report to the Scottish Government and the Scottish Parliament setting out their opinions on the consolidated accounts. We will provide the Principal 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.

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## Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Proposed Committee Date
Overview of Internal Audit	1 September 2020	22 September 2020
Management Report	1 September 2020	22 September 2020
Annual Audit Report	8 December 2020	8 December 2020
Independent Auditor's Report	9 December 2020	N/A
Section 22 report on the 2019/20 audit of the Scottish Government Consolidated Accounts	10 December 2020	N/A
Assurance statement on the Whole of Government Accounts	18 December 2020	N/A

Source: Audit Scotland

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## Audit fee

**14.** The proposed audit fee for the 2019/20 audit of the Scottish Government is £1,129,720 (2018/19 £1,107,750). In determining the audit fee we have taken account of the risk exposure of the Scottish Government, 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 core schedules and working papers on 26 June 2020 and the consolidated accounts, with a complete working papers package on 29 September 2020. The proposed dates extend the reporting timetable by around two months from the same stages in previous years, and these revised dates outlined in [Exhibit 2](#) remain within statutory deadlines. The dates have been developed through discussion with the Scottish Government to build in flexibility in response to the Covid-19 pandemic, and to provide component bodies of the consolidated accounts more time to produce audited accounts. 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.

**15.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited core schedules or consolidated 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 Assurance Committee and Principal Accountable Officer

**16.** 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.

**17.** The audit of the consolidated accounts does not relieve management or the Scottish Government Audit and Assurance Committee as those charged with governance, of their responsibilities.

### Appointed auditor

**18.** 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.

**19.** 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

## Consolidated accounts

**20.** The consolidated 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 the Scottish Government 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 the Scottish Government 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.

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

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of affairs of the Scottish Government and the consolidation of the entities within the departmental accounting boundary as at 31 March 2020 and of the income and expenditure of the Scottish Government and the consolidation of the entities within the departmental accounting boundary and of the net resource outturn and resources applied to objectives for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Financial Reporting Manual (FReM); and
- 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.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the consolidated accounts

**22.** We also review and report on statutory other information published within the consolidated accounts including the performance report, 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.

**23.** We also review the content of any information in the consolidated accounts other than the financial statements and audited part of the remuneration report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**24.** 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.

**25.** We calculate materiality at different levels as described below. The calculated materiality values for the Scottish Government (consolidated accounts and core schedules) are set out in [Exhibit 3](#).

## Exhibit 3 Materiality values

Materiality	Amount
<b>Scottish Government Consolidated Financial Statements</b>	
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2020 based on the 2019/20 Spring Budget Revision.	£387 million
<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.	£194 million
<b>Reporting threshold</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 one per cent of planning materiality and capped at £0.25 million.	£0.25 million
<b>Scottish Government Core Schedules</b>	
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of core expenditure for the year ended 31 March 2020 based on the 2019/20 Spring Budget Revision.	£76 million
<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.	£38 million
<b>Reporting threshold</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 one per cent of planning materiality and capped at £0.25 million.	£0.25 million

Source: Audit Scotland

## Timetable

**26.** The annual accounts timetable is outlined at [Exhibit 4](#). This has been developed in discussion with the Scottish Government. 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.

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### Exhibit 4 Annual accounts timetable

Key stage	Date
Latest submission date of core schedules with complete working papers package	26 June 2020
Latest submission of unaudited consolidated financial statements with complete working papers package	29 September 2020
Latest date for final clearance meeting with the Chief Financial Officer	19 November 2020
Agreement of audited unsigned financial statements; issue of Annual Audit Report including ISA 260 report to those charged with governance	1 December 2020
Independent auditor's report signed	9 December 2020

## Internal audit

**27.** Internal audit is provided by the Internal Audit Division (IAD) of the Scottish Government's Directorate of Internal Audit and Assurance (DIAA). As part of our planning process we carry out an annual assessment of the internal audit division to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit division's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit division
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**28.** 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. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

**29.** From our initial review of internal audit plans we plan to consider placing reliance on their work relating to grants management. We will also take consideration of other internal audit reports, including Sponsorship and Governance reviews, as part of our audit.

## Audit dimensions

**30.** 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

**31.** 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.

#### Financial sustainability

**32.** 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 Scottish Government's ability to demonstrate its 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 Scottish Government's progress in developing its approach to strategic public financial management in the context of new financial powers
- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- whether the Scottish Government can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

#### Financial management

**33.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the Scottish Government has arrangements in place to ensure systems of internal control are operating effectively
- whether the Scottish Government can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance

- how the Scottish Government has assured itself that its financial capacity and skills are appropriate
- whether the Scottish Government has appropriate and effective arrangements for the prevention and detection of fraud and corruption
- how the Scottish Government is progressing the requirements of the National Fraud Initiative (NFI).

### Governance and transparency

**34.** 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 its governance arrangements are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

**35.** We will also comment on the revisions made to governance arrangements to respond to the Covid-19 pandemic in our Annual Audit Report for 2019/20.

### Value for money

**36.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- the Scottish Government can provide evidence that it is demonstrating value for money in the use of resources
- the Scottish Government can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- the Scottish Government can demonstrate that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

### Best Value

**37.** The Principal Accountable Officer of the Scottish Government has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

**38.** Our approach to the Scottish Government integrates the annual audit work and our wider programme of national performance audits. Together, these provide a strong basis for us to assess the Scottish Government's position in relation to each of the four audit dimensions and to maximise the value of our audit reports.

### Independence and objectivity

**39.** 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.

**40.** The Auditor General for Scotland is the appointed auditor of the Scottish Government. The engagement lead for the audit of the Scottish Government is Michael Oliphant, Audit Director. Auditing and ethical standards require the engagement lead, 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 Government.

## Quality control

**41.** 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.

**42.** 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.

**43.** 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 Government

## Annual Audit Plan 2019/20

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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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)