

Creative Scotland & Creative Scotland National Lottery Distribution Fund

Annual Audit Plan 2020/21

 AUDIT SCOTLAND

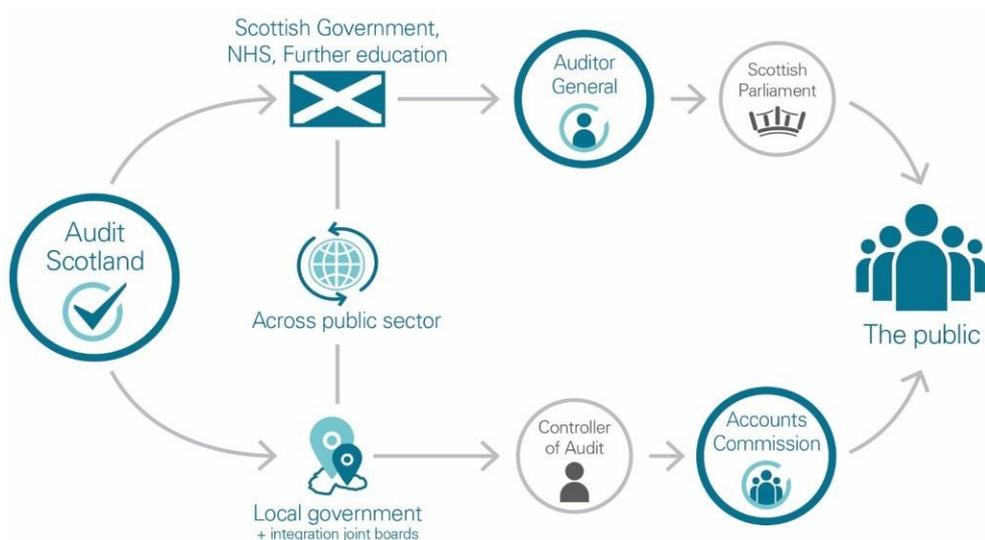
Prepared for Creative Scotland & Creative Scotland National Lottery Distribution Fund

April 2021

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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). 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.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

3. The public health crisis caused by the coronavirus disease 2019 (COVID-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

5. We aim to add value to Creative Scotland (CS) & Creative Scotland National Lottery Distribution Fund (CSNLDF) 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 Creative Scotland & Creative Scotland National Lottery Distribution Fund promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

6. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for Creative Scotland & Creative Scotland National Lottery Distribution Fund. 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

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</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. • Detailed testing of grant income and expenditure to ensure this has been accounted for appropriately. • Review of the apportionment of costs and accounting estimates for reasonableness • Focussed testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. • Cut off testing.
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. Most of the expenditure within CS & CSNLDF relates to grants and the nature of this expenditure represents a risk of material misstatement in the financial statements.</p> <p>There is also an increased risk of fraud relating to the significant increase in grants to provide support during the covid pandemic.</p>	<p>Controls are in place to ensure grants are awarded and paid in line with internal processes and the grant contract.</p> <p>Fraud risks were considered in launching new funding programmes, and controls put in place to detect and prevent fraud. Use of technology to analyse data and detect issues such as duplicate applications, and verification of applicant data.</p>	<ul style="list-style-type: none"> • Walk through testing of controls in place within the grant management system. • Detailed substantive testing of grant expenditure, including authorisation and approval.
<p>3 Estimation and Judgements</p> <p>A significant and material judgement is made over the estimation of grants outstanding at the financial year end. We recognise that this estimation represents a risk of material misstatement in the financial statements.</p>	<p>Controls are in place to ensure grants are awarded and paid in line with internal processes and the grant contract.</p> <p>A detailed database of grant balances is maintained and reconciled to the grants system and the finance system.</p>	<ul style="list-style-type: none"> • Detailed substantive testing of grant expenditure • Focussed testing of year end estimates and assumptions.

<p>4 Recharge of Salary Costs to CSNLDF</p>	<p>Services provided by Creative Scotland are recharged to CSNLDF. This year the recharge for salaries has dropped from 40% to 25%. There is a risk that the level of recharge does not fairly reflect the true cost to Creative Scotland of providing services to the National Lottery Distribution Fund.</p>	<p>The reduction in the recharge is a temporary measure in an extraordinary year where the usual split of costs was altered significantly.</p>	<ul style="list-style-type: none"> • Focused testing of the percentage of salary costs recharged to CSNLDF and the underlying basis upon which this is calculated to ensure it has been accounted for correctly.
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Wider dimension risks

<p>4 Financial Sustainability</p>	<p>There is a risk that the National Lottery Funding received by CSNLDF will decrease in the long term. In the past, the Scottish Government increased grant in aid funding to offset any reduction in lottery funding. However, grant in aid funding may decrease or additional funding may not always be available.</p> <p>Creative Scotland should ensure it has appropriate budget monitoring and longer term planning arrangements in place to address this challenge.</p>	<p>There is a detailed financial plan and strategy which ensures the approved spend in the CS NLDF matches income and ensures sufficient cashflow to pay grant balances over the term of the plan.</p>	<ul style="list-style-type: none"> • Monitor and review CS & CSNLDF management accounts. • Review of longer term financial and savings plans.
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Source: Audit Scotland

7. As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2020/21 because the majority of income is received in the form of Scottish Government Grant in Aid and funding from the National Lottery. This therefore limits the opportunity for manipulation and the risk has been rebutted.

Reporting arrangements

8. 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.

9. 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.

10. We will provide an independent auditor's report to the members of Creative Scotland, Scottish Parliament and the Auditor General for Scotland setting out our

opinions on the annual report and 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.

11. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December. With Covid-19 disruption continuing, a degree of flexibility will be required with the timing of audit outputs. Currently, Audit Scotland is reviewing its priorities, and these will determine audit reporting and certification deadlines across the public sector. We will work with the finance team to agree the scheduling of work.

Exhibit 2

2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	16 th March 2021	23 rd March 2021
Independent Auditor's Report	TBC	TBC
Annual Audit Report	TBC	TBC

Source: Audit Scotland

Audit fee

12. The agreed audit fee for the 2020/21 audit of Creative Scotland is £46,930 [2019/20 £45,800] and £24,510 for Creative Scotland National Lottery Distribution Fund [2019/20 £23,920]. In determining the audit fee, we have taken account of the risk exposure of Creative Scotland & Creative Scotland National Lottery Distribution Fund, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

13. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report accounts, 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 & Risk 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 report and accounts does not relieve management or the Audit & Risk 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. 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

Annual report and accounts

18. 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 Creative Scotland & Creative Scotland National Lottery Distribution Fund 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 Creative Scotland & Creative Scotland National Lottery Distribution Fund 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.

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

- give a true and fair view in accordance with the Public Services Reform (Scotland) Act 2010 and directions made thereunder by the Scottish Ministers of the state of the body affairs as at 31 March 2020 and of its net expenditure 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 2020/21 FReM; and
- have been prepared in accordance with the requirements of the Public Services Reform (Scotland) Act 2010 and directions made thereunder by the Scottish Ministers.

Statutory other information in the annual accounts

20. We also review and report on statutory other information published within the annual report and accounts including the management commentary, 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.

21. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

22. 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



characteristics



responsibilities



principal activities



risks



governance arrangements

uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

23. We calculate materiality at different levels as described below. The calculated materiality values for Creative Scotland & Creative Scotland National Lottery Distribution Fund are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	CS	CSNLDF
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 0.5% of gross expenditure for Creative Scotland and 0.9% of gross expenditure for Creative Scotland National Lottery Distribution Fund for the year ended 31 March 21 based on the December 2020 management accounts.	£0.595 million	£0.251 million
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 50% of planning materiality.	£0.298 million	£0.125 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3% of planning materiality.	£18 thousand	£8 thousand

Source: Audit Scotland

Internal audit

24. Internal audit is provided by MHA Henderson Loggie. 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 the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA (UK)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 function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

25. We will report any significant findings to management on a timely basis.

Audit dimensions

26. 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

27. 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

28. 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 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
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

29. 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 arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control systems in communicating accurate and timely financial performance can be demonstrated
- how Creative Scotland & Creative Scotland National Lottery Distribution Fund has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

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 Creative Scotland & Creative Scotland Lottery National Distribution Fund can demonstrate that the governance arrangements in place 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.

Value for money

31. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Creative Scotland and Creative Scotland National Lottery Distribution Fund can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.

Best Value

32. The Accountable Officer of Creative Scotland & Creative Scotland National Lottery Distribution Fund has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

Independence and objectivity

33. 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.

34. The engagement lead for Creative Scotland & Creative Scotland National Lottery Distribution Fund is Liz Maconachie, 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 Creative Scotland or Creative Scotland National Lottery Distribution Fund.

Quality control

35. International Standard on Quality Control 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.

36. 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.

37. 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.

Creative Scotland & Creative Scotland National Lottery Distribution Fund

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