

Scottish Fiscal Commission

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

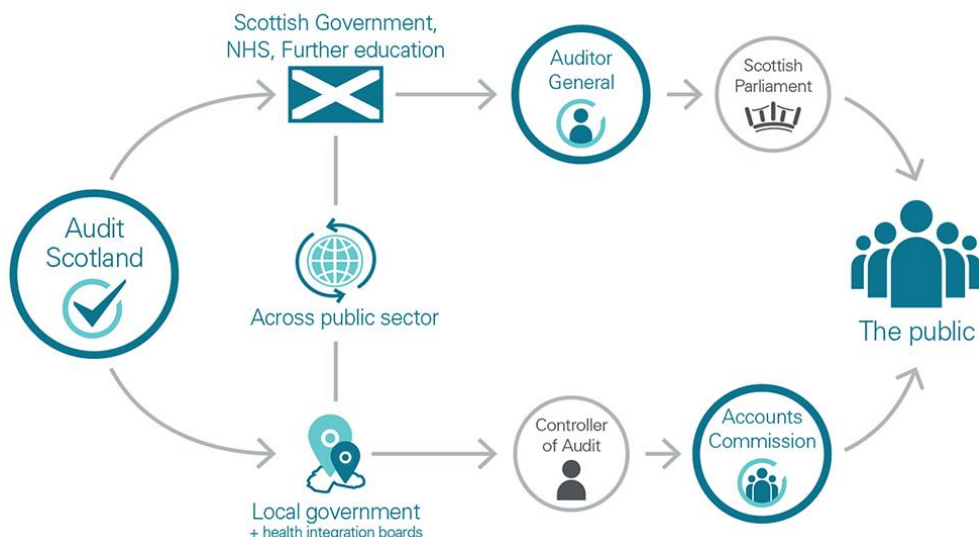
Prepared for the Scottish Fiscal Commission

February 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 Code of Audit Practice includes provisions relating to the audit of small and less complex audited 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 and less complex audited bodies provisions of the Code to the 2020/21 audit of the Scottish Fiscal Commission.
- 4.** The Scottish Fiscal Commission has operated as a statutory body since 1 April 2017 and produces Scotland's official, independent economic and fiscal forecasts to inform the Scottish Budget and assist in the scrutiny of fiscal events. The Commission is also required to provide an assessment of the reasonableness of the Government's borrowing projections. This role as an independent fiscal institution is becoming increasingly important. With new powers devolved to the Scottish Parliament playing through, the Scottish Fiscal Commission is responsible for forecasting an increasing proportion of the Scottish Government's budget and social security expenditure.
- 5.** 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.
- 6.** 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.
- 7.** We published a further [update](#) on the impact of Covid-19 on public audit in January 2021, which recognised that the reintroduction of restrictions affects our capacity for audit work. It may also affect the capacity of some public bodies to prepare accounts. The well-being of everyone involved and the delivery of high-quality audits remain paramount, and we will continue to be flexible about timelines. 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

8. We aim to add value to the Scottish Fiscal Commission through our external audit work by:


- identifying and providing insight on significant risks, and making relevant recommendations for improvement
- reporting our findings and conclusions in public
- recommending and encouraging good practice
- providing clear conclusions on the appropriateness, effectiveness and impact of financial sustainability and governance.

9. In so doing, we intend to help the Scottish Fiscal Commission achieve improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

10. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified one significant financial statements risk which requires specific audit testing for the Scottish Fiscal Commission. This is detailed in [Exhibit 1](#).

Exhibit 1 2020/21 Significant audit risks

|  Audit Risk | Source of assurance | Planned audit work |
|--|--|---|
| Financial statements risk | | |
| <p>1 Risk of material misstatement caused by management override of controls</p> <p>International Auditing Standards (ISA 240) 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 management override of controls that results in fraudulent 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"> • Review of accounting estimates • Detailed testing of journal entries • Focused testing of accruals and prepayments • Evaluation of significant transactions that are outside the normal course of business • Focused testing of accounting adjustments at the year-end • Substantive testing of transactions after the year end to confirm transactions have been accounted for in the correct financial year. |

Source: Audit Scotland

11. 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. The Scottish Fiscal Commission's only source of revenue is Scottish Government funding which we consider is not subject

to significant risk of fraudulent recognition, therefore we have rebutted this presumed risk in 2020/21.

12. In line with Practice Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. The majority of expenditure incurred by the Scottish Fiscal Commission is administered using well-established Scottish Government systems and controls. We have also rebutted the risk of material misstatement caused by fraud in expenditure in 2020/21 and do not plan additional audit procedures in relation to potential fraud affecting the statement of expenditure.

Reporting arrangements

13. 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.

14. 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 officers to confirm factual accuracy.

15. We will provide an independent auditor's report to the Scottish Fiscal Commission, 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.

Exhibit 2 2020/21 Audit outputs

| Audit Output | Target date | Committee Date |
|------------------------------|------------------|------------------|
| Annual Audit Plan | 10 February 2021 | 17 February 2021 |
| Independent Auditor's Report | TBC* | TBC |
| Annual Audit Report | TBC* | TBC |

* Please note that all dates are indicative and are likely to be subject to change.

Source: Audit Scotland

Notional audit fee

16. The agreed notional audit fee for the 2020/21 audit of the Scottish Fiscal Commission is £28,190 (2019/20: £27,270). In determining the audit fee, we have taken account of the risk exposure of the Scottish Fiscal Commission, 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 report and accounts, with a complete working papers package by the end of June 2021 (TBC).

17. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and accounts and/or the accompanying working papers, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

18. 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.

19. The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

20. 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.

21. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and 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 report and accounts

22. 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 the Scottish Fiscal Commission and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Scottish Fiscal Commission will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing, and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

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

- give a true and fair view of the state of the Scottish Fiscal Commission's affairs as at 31 March 2021 and of its net operating cost for the year then ended
- have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of expenditure.

Statutory other information in the annual report and accounts

24. We also review and report on statutory other information published within the annual report and 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.

25. 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.

26. As explained in paragraph 3 above, we plan to apply the small and less complex audited bodies provisions of the Code of Audit Practice to the 2020/21 audit of the Scottish Fiscal Commission. This means that our audit work is risk based and proportionate to the nature and size of Scottish Fiscal Commission. Our work will include assessing the appropriateness of the disclosures in the governance statement and the financial sustainability of Scottish Fiscal Commission and the services that it delivers over the medium to longer term.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

27. 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.

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

Exhibit 3 Materiality values



| Materiality | Amount |
|---|---------|
| 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 2% of gross expenditure for the year ended 31 March 2021 based on the budget for 2020/21. | £40,000 |
| 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 65% of planning materiality. | £26,000 |
| 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 5% of planning materiality. | £2,000 |

Source: Audit Scotland

Timetable

29. To support the efficient use of resources it is critical that the annual report and accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#). It should be noted that the dates in this timetable are indicative and are likely to be subject to change.

Exhibit 4 Annual report and accounts timetable

|  Key stage |  Date |
|---|--|
| Latest submission date of unaudited annual report and accounts with complete working papers package | TBC |
| Latest date for final clearance meeting with Head of Strategy, Governance and Corporate Services | TBC |
| Issue of Letter of Representation and proposed independent auditor's report | TBC |
| Independent auditor's report signed | TBC |
| Issue of Annual Audit Report to those charged with governance | TBC |

Internal audit

30. Internal audit is provided by the Scottish Government's Internal Audit and Assurance Directorate. Therefore, internal audit will be assessed by our Scottish Government audit team to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

31. International 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. Due to the areas of work covered, we will read the work of internal audit to support audit intelligence and identify whether any additional risks relevant to our audit are evident, but not place formal reliance on the work.

Independence and objectivity

32. 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.

33. The engagement lead (i.e. appointed auditor) for the Scottish Fiscal Commission is Mark Taylor, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Scottish Fiscal Commission. Mark Taylor also leads Audit Scotland's work on financial devolution and he therefore interacts with the Scottish Fiscal Commission about its core work as well as matters related to the annual audit.

Quality control

34. 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.

35. 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.

36. 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 Fiscal Commission

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