

Scottish Consolidated Fund

Annual Audit Plan 2020/21



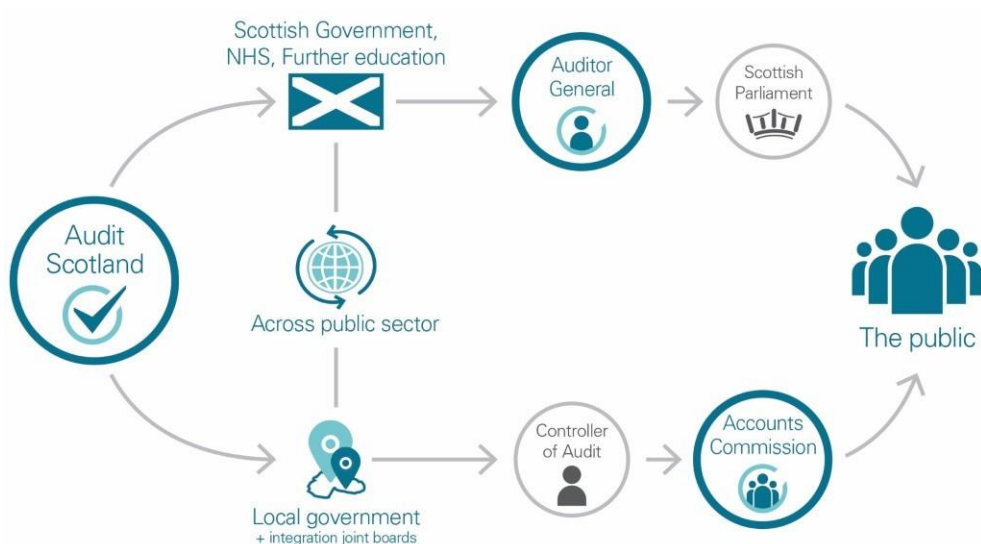
 AUDIT SCOTLAND

Prepared for the Scottish Government
March 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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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 other sources such as devolved taxes and Scottish Income Tax. 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 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.
- 3.** The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
- 4.** We fully recognise the unique and significant pressures 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.
- 5.** The public health crisis caused by 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 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 wellbeing 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

- 7.** We aim to add value 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 and a review of supporting information we have identified the following significant audit risks for the Scottish Consolidated Fund, as 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> | <p>Detailed testing of journal entries. Testing of all transactions. Review any drawdowns made on the contingency fund.</p> |
| <p>2 Working papers</p> <p>We reported in our 2019/20 Annual Audit Report that the working papers submitted did not provide sufficient audit evidence for SCF transactions nor was there a clear audit trail between the electronic records management system (ERDM) and the unaudited accounts.</p> <p>Management agreed to consider the transfer of files to electronic format and confirmed that the audit trail would be improved.</p> <p>There remains the risk that the working papers and audit trail will be insufficient, resulting in delays to the certification process.</p> | <p>Transfer of paper files to electronic files.</p> <p>Ongoing communication with Audit Scotland around the clarity of the audit trail and working papers.</p> | <p>Review of working papers and audit trail during our final accounts work.</p> |

Source: Audit Scotland

9. 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 subject to audit within the financial statements of other bodies (92.8% of income using 2019/20 data), and as such we consider there to be a low risk of fraud in this area.

10. 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. We have rebutted the risk of material misstatement caused by fraud in expenditure in the 2020/21 accounts because the majority of payments from the Scottish Consolidated Fund are subject to audit within the financial statements of other bodies (99.4% of expenditure using 2019/20 data), and as such we consider there to be a low risk of fraud in this area.

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.

12. We will provide an independent auditor's report to the Scottish Government, 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

2020/21 Audit outputs

| Audit output | Target date | Committee date |
|------------------------------|-----------------|------------------|
| Annual Audit Plan | 15 March 2021 | 22 March 2021 |
| Independent Auditor's Report | 6 December 2021 | 13 December 2021 |
| Annual Audit Report | 6 December 2021 | 13 December 2021 |

Source: Audit Scotland

Audit fee

13. The agreed audit fee for the 2020/21 audit of the Scottish Consolidated Fund is £23,990 [2019/20: £23,400]. In determining the audit fee we have taken account of the risk exposure of the Scottish Consolidated Fund and the planned management assurances in place. Our audit approach assumes receipt of the unaudited Scottish Consolidated Fund accounts, with a complete working papers package on 30 June 2021.

14. Where our audit cannot proceed as planned through, for example, late receipt of unaudited Scottish Consolidated Fund 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 and Assurance Committee and Principal Accountable Officer

15. 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.

16. The audit of the Scottish Consolidated Fund Accounts does not relieve management or the Scottish Government Audit and Assurance Committee as those charged with governance, of their responsibilities.

Appointed auditor

17. 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.

18. 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

19. 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 Scottish Consolidated 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
- 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.

20. 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 2021 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

21. We also review and report on other information published within the annual accounts including the foreword 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

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 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 the Scottish Consolidated Fund are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 3

Materiality values

| Materiality | Amount |
|--|---------------|
| <p>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 one per cent of judicial salaries (one of the key elements within the Scottish Consolidated Fund) for the year ended 31 March 2020 based on the latest audited accounts.</p> | £0.35 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% 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> | £0.26 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

24. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#). The ongoing uncertainty created by the pandemic and the current restrictions imposed means that 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 | 30 June 2021 |
| Latest date for final clearance meeting with Scottish Government | By 12 November 2021 |
| Agreement of audited unsigned financial statements and issue of Annual Audit Report and proposed Independent Auditor's opinion | 6 December 2021 |
| Independent auditor's report signed | 14 December 2021 |
| Latest date for signing of WGA return | 31 January 2022 |

Internal audit

25. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. 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. We will consider any internal audit work that relates to the operation of the SCF.

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. The Code of Audit Practice includes provisions relating to the audit of less complex 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.

28. Due to the nature of the Scottish Consolidated Fund, we have assessed the extent of wider dimensions work applicable and concluded that a reduced scope, can be applied.

Independence and objectivity

29. 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.

30. The engagement lead (i.e. appointed auditor) for the Scottish Consolidated Fund is Michael Oliphant, 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 Consolidated Fund.

Quality control

31. 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.

32. 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.

33. 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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