

# Scottish Land Commission

## Annual Audit Plan 2021/22



Prepared for Scottish Land Commission

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# Introduction

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## Summary of planned audit work

**1.** This document summarises the work plan for our 2021/22 external audit of the Scottish Land Commission. The main elements of our work include:

- understanding the key systems of internal control, and how weaknesses in these systems could impact on the financial statements
- an audit of the financial statements, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the wider audit dimensions that frame the wider scope of public sector audit (as amended by supplementary guidance): the appropriateness of the disclosures in the governance statement and financial sustainability.

## Impact of Covid-19

**2.** The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

**3.** The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our 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. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

**4.** We aim to add value to the Scottish Land Commission 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 will help the Scottish Land Commission promote improved standards of governance, better management, and decision-making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

## Respective responsibilities of the auditor and the Scottish Land Commission

**5.** The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the Scottish Land Commission. Key responsibilities are summarised below.

### Auditor responsibilities

**6.** 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.

**7.** 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 Scottish Land Commission to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

### Scottish Land Commission responsibilities

**8.** The Scottish Land Commission is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

**9.** The Scottish Land Commission also has 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 deliver their objectives.

### Managing the transition to 2022/23 audits

**10.** Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

**12.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the Scottish Land Commission are set out below.

## Exhibit 1

### 2021/22 Materiality levels for the Scottish Land Commission

Materiality	Amount
<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 2% of gross expenditure for the year ended 31 March 2022 based on budgeted gross expenditure for 2021/22.	£30,000
<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 assessed performance materiality at 75% of planning materiality.	£23,000
<b>Reporting threshold (i.e. clearly trivial)</b> – we are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£2,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of the Scottish Land Commission, its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management and internal audit, attendance at committees and review of supporting information.

**14.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<b>1. Risk of material misstatement due to fraud caused by the management override of controls</b> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<ul style="list-style-type: none"> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals at the year-end and post-closing entries focusing on significant risk areas.</li> <li>• Consider the need to test journal entries and other adjustments during the period.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Test accruals and prepayments focusing on significant risk areas.</li> </ul>

## Other areas of audit focus

**15.** We have not identified any other areas where we consider there are risks of material misstatement to the financial statements. If our assessment of risk changes and we identify any additional significant risks, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

## Audit risk assessment process

**16.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

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# Audit dimensions and Best Value

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## Introduction

**17.** The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. Auditors are required to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies unless the auditor judges that it is not appropriate due to the body's size, nature, and audit risks.

## Audit dimensions

**18.** As in previous years, we plan to apply the small body provisions of the Code of Audit Practice to the Scottish Land Commission's 2021/22 audit. This is due to the small volume and lack of complexity of the Scottish Land Commission's financial transactions. Consequently, our wider scope audit work will focus on the appropriateness of the disclosures in the governance statement and the Scottish Land Commission's financial sustainability.

## Duty of Best Value

**19.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within the Scottish Land Commission.

## Audit dimension risks

**20.** We did not identify any new audit dimension risks this year and so our focus will be on following up last year's recommendation that 'the financial strategy should be updated to reflect the impact of the recently completed pay and grading review, and to provide more detail on how the risks to financial sustainability identified will be addressed.'

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

- 21.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 3](#), 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).
- 22.** 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.
- 23.** We will provide an independent auditor's report to the Scottish Land Commission, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the Scottish Land Commission and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.
- 24.** [Exhibit 3](#) outlines the target dates for our 2021/22 audit outputs which reflect available audit resources and prioritisation decisions (see paragraph 26 below) and ensure that the statutory requirement to lay the Scottish Land Commission's audited accounts in the Scottish Parliament by 31 December 2022 is achieved.

## Exhibit 3 2021/22 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Report	17 October 2022	31 October 2022 (Audit and Risk Committee) 1 November 2022 (Commissioner's Meeting)
Independent Auditor's Report	1 November 2022	N/A

Source: Audit Scotland

## Timetable

**25.** The effect of Covid-19 on the 2019/20 and 2020/21 audits means that we are starting the 2021/22 audits later than in previous years. We expect that this year will continue to be challenging and we have reviewed resources and timings across the audits which Audit Scotland delivers.

**26.** In the interests of public accountability, and with a view to the new audit appointments from 2022/23, Audit Scotland is prioritising NHS, agency and council audits this year. Although the target date for the completion of NDPB audits (including the Scottish Land Commission) is 31 October 2022, this cannot be met in all cases. The overriding statutory requirement is for the audited accounts to be laid in the Scottish Parliament by the statutory deadline of 31 December 2022, and our aim is to complete all audits in time to achieve that deadline. As noted in paragraph 3, however, the well-being of audit teams and the delivery of high-quality audits remain paramount.

**27.** We have included the proposed timetable for the audit of the Scottish Land Commission at [Exhibit 4](#) which has been discussed with management. We continue to seek ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality. Progress against the proposed timetable will be discussed with management and finance officers over the course of the audit.

### Exhibit 4

#### Proposed annual report and accounts timetable

Key stage	Date
Consideration of the unaudited annual report and accounts by those charged with governance	6 June 2022
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	13 June 2022
Agreement of audited and unsigned annual report and accounts, and issue of Letter of Representation and proposed independent auditor's report	24 October 2022
Signed Independent Auditor's Report (following Commissioner's meeting)	1 November 2022

Source: Audit Scotland

**28.** To support an efficient audit, it is critical that high quality unaudited accounts and supporting working papers are provided and that the timetable for producing the annual report and accounts for audit is achieved.

## Audit fee

**29.** The proposed audit fee for the 2021/22 audit of the Scottish Land Commission is £25,890 (2020/21: £25,410). In determining the audit fee, we have taken account of the risk exposure of the Scottish Land Commission, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

**30.** Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and accounts, the absence of adequate supporting working papers 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.

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# Other matters

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## Internal audit

**31.** The Scottish Land Commission's internal audit function is provided by BDO. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**32.** We do not plan to place any formal reliance on the work of internal audit in 2021/22 as we intend to use a substantive approach for the audit of the Scottish Land Commission's financial statements. We plan to consider internal audit's work on financial processes (payments) as part of our wider dimension audit responsibilities

## Independence and objectivity

**33.** Auditors appointed by the Auditor General for Scotland 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 (i.e. appointed auditor) for the Scottish Land Commission is Maggie Bruce, 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 the Scottish Land Commission.

## Quality control

**35.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

# Scottish Land Commission

## Annual Audit Plan 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

**[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)**

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