

# Scottish Consolidated Fund

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for the Scottish Government  
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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 Consolidated Fund (SCF). The main elements of our work include:

- an audit of the financial statements leading to an independent audit opinion
- audit opinions on regularity and other statutory information published within the annual accounts including the foreword and the Governance Statement
- consideration of arrangements in relation to the audit dimensions: financial sustainability, and governance and transparency that frame the wider scope of public sector audit
- providing assurance on the Whole of Government Accounts (WGA) return

## Impact of Covid-19

2. The 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 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 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 will help the Scottish Government promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and the Scottish Government

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the Scottish Government. 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 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.

## Scottish Government responsibilities

**8.** 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.

**9.** As noted above the Scottish Government is responsible for maintaining accounting records and preparing financial statements in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

**10.** In addition, the Scottish Government 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.

# Financial statements audit planning

## Materiality

**11.** We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. The assessment of what is material is a matter of professional audit 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 Consolidated Fund are set out in [Exhibit 1](#).

## Exhibit 1

### 2021/22 Materiality levels for the Scottish Consolidated Fund

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 judicial salaries for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£0.730 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 assessed performance materiality at 75% of planning materiality. Although we set at 75% of planning materiality, in practice, due to the nature of the account, we recognise 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.	£0.548 million
<b>Reporting threshold.</b> We are required to report to those charged with governance on all unadjusted misstatements.	

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

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

**14.** Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. Significant risks of material misstatement 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
<p><b>1.</b> Risk of fraud caused by the management override of controls</p> <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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Enquire about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journal entries and other adjustments during the period.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Substantive testing of receipts and payments transactions.</li> <li>• Review any drawdowns made on the contingency fund</li> </ul>

Source: Audit Scotland

**15.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the Scottish Consolidated Fund because the majority of receipts into the fund are subject to audit within the financial statements of other

bodies (98.9% of receipts using 2020/21 data), and as such we consider there to be a low risk of fraud in this area.

**16.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for the Scottish Consolidated Fund because the majority of payments from the fund are subject to audit within the financial statements of other bodies (99.6% of payments using 2020/21 data), and as such we consider there to be a low risk of fraud in this area.

**17.** As a result, we have not incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

### Other areas of audit focus

**18.** As part of our assessment of audit risks, we have identified one other risk of material misstatement to the financial statements. The risk relates to the absence of a clear audit trail linking the unaudited accounts to supporting evidence. In addition, the Head of Treasury and Banking is due to retire in March 2022 with no replacement confirmed.

**19.** We acknowledge that work has been ongoing to provide an audit trail linking the transactions to the supporting documentation and the annual accounts. There remains a risk that linkages between the unaudited accounts and the supporting documentation is not available and a risk to business continuity as knowledge is not transferred.

**20.** Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We shall keep this area under review as our audit progresses and revise our planned audit approach if appropriate.

### Audit risk assessment process

**21.** 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.

# Audit dimensions

## Introduction

22. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

23. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

### Exhibit 3 Audit dimensions



Source: Code of Audit Practice

24. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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).
- **Governance and transparency** – 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.

- **Value for money** – value for money refers to using resources effectively and continually improving services.

**25.** The Code of Audit Practice includes provisions relating to the audit of small 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.

**26.** Due to the volume and lack of complexity of the financial transactions, we have concluded that the small bodies provision can be applied. We have not identified any risks in relation to the audit dimensions.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**27.** All audit plans and audit reports, as detailed in [Exhibit 4](#), together with 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).

**28.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans where appropriate. Draft reports will be issued to the relevant officers to confirm factual accuracy.

**29.** We will provide an independent auditor's report to the Scottish Government, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the SCF. We will provide the Scottish Government 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.

**30.** [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

## Exhibit 4 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	14 March 2022	21 March 2022
Independent Auditor's Report	31 October 2022	12 December 2022 (tbc)
Annual Audit Report	31 October 2022	12 December 2022 (tbc)

Source: Audit Scotland

## Timetable

**31.** To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

**32.** We will continue to work in close partnership with the Scottish Government over the course of the audit.

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### Exhibit 5 Proposed annual accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2022
Latest date for final clearance meeting with the Scottish Government	30 September 2022
Agreement of audited and unsigned annual accounts and issue of Annual Audit Report and proposed Independent Auditor's Report	31 October 2022
Signed Independent Auditor's Report	31 October 2022
Latest date for WGA assurance	To be confirmed

Source: Audit Scotland

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## Audit fee

**33.** The audit fee for the 2021/22 audit of the Scottish Consolidated Fund is £24,480 (2020/21: £23,990). 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.

**34.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or the absence of adequate supporting 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.

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# Other matters

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## Independence and objectivity

**35.** 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.

**36.** 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

**37.** 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.

**38.** 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.

**39.** 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 Consolidated Fund

## 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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