

Scottish Commission on Social Security

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for the Scottish Commission on Social Security

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Contents

Introduction	3
Financial statements audit planning	5
Audit dimensions and Best Value	8
Reporting arrangements, timetable, and audit fee	11
Other matters	13

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of the Scottish Commission on Social Security (SCoSS). The main elements of our work include:

- an audit of the annual accounts, and provision of an Independent Auditor's Report
- forming an audit opinion on regularity of expenditure and income
- forming an opinion on 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 financial sustainability of SCoSS.

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 Commission on Social Security 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 SCoSS promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and the Scottish Commission on Social Security

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and SCoSS. 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 audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

The Scottish Commission on Social Security responsibilities

8. SCoSS is responsible for maintaining accounting records and preparing financial statements that give a true and fair view, in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

9. In addition, SCoSS 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 the impact of Covid-19. This current year, 2021/22, is the final year of the 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 SCoSS are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for SCoSS

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 2022 based on the latest forecast presented to the Board.	£5,000
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 assessed performance materiality at 50% of planning materiality.	£2,500
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.	£250

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of SCoSS, 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 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
<p>1. Risk due to 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>	<p>Detailed testing of journals</p> <p>Testing to supporting documentation for a sample of transactions</p> <p>Review of accounting estimates</p> <p>Evaluation of significant transactions that are outside the normal course of business</p> <p>Substantive testing of transactions after the year end to confirm transactions have been accounted for in the correct financial year</p> <p>Testing of accounting adjustments at the year-end</p>
<p>2. Accounts preparation</p> <p>In 2019/20 and 2020/21 we reported that there were significant delays in receiving supporting documentation. In addition, the unaudited accounts did not include all the required information.</p> <p>There is a risk that the annual report and accounts are not prepared in accordance with the appropriate guidance and statutory deadline is not achieved.</p>	<p>Accounts prepared by Scottish Government</p> <p>Year-end processes and accounts preparation timetable for 2021/22 are being reviewed by SCoSS secretariat and SG sponsor department</p>	<p>Ongoing discussions with the SCoSS over accounts preparation</p>

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, 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 SCoSS because SCoSS does not generate any income.

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 SCoSS because expenditure incurred by SCoSS is administered using well-established Scottish Government systems and controls. Furthermore, the nature of this expenditure is not complex, with approximately 86% of costs forecast to be spent on staff and staff-related costs.

17. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Audit risk assessment process

18. 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 audit. Where such changes occur, we will advise SCoSS and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

19. 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

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

Exhibit 3

Audit dimensions



Source: Code of Audit Practice

21. 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. As part of our 2019/20 audit we identified a risk in relation to SCoSS’s audit arrangements. [Exhibit 4](#) below provides further detail.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

22. 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 audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. We plan to apply these provisions of the Code to the 2021/22 audit of SCoSS in light of the low volume and lack of complexity of the financial transactions.

Duty of Best Value

23. [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 shall undertake a high-level review to confirm that adequate arrangements are in place within SCoSS.

Audit dimension risks

24. As noted above we identified a risk relating to audit arrangements. [Exhibit 4](#) sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4

2021/22 Audit dimension risks

	Description of risk	Sources of assurance	Planned audit response
1.	<p>Governance and transparency: Audit arrangements</p> <p>In response to matters raised previously, SCoSS have established an interim audit committee in February 2022.</p> <p>It is essential that the audit committee includes coverage of items referred to in the Scottish Public Finance Manual (SPFM) and On Board</p>	<p>Audit outputs are submitted to the Board of SCoSS for their consideration</p> <p>Process has started for the appointment of an independent consultant to provide assistance to board members. The appointee will provide scrutiny and advise on audit related matters.</p>	<p>Ongoing discussions with SCoSS</p> <p>Review progress of appointment of independent consultant and impact on scrutiny</p> <p>Review papers and minutes from the audit committee meetings</p>

– A Guide for Members of
Statutory Boards.

Examples of areas to be considered by SCoSS include: review of the accounting policies, consideration of the effectiveness of the internal control environment, oversight over the preparation of the accounts and evaluation of the need for internal audit assurance.

Until the audit arrangements are embedded into the ongoing organisational activity, there is a risk that they are not fully effective and SCoSS will not comply with the requirements of the SPFM.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. Audit reporting is the visible output for the annual audit. All Annual Audit Plans together with any other outputs, as detailed in [Exhibit 5](#), will be published on our website: www.audit-scotland.gov.uk. Matters of public interest are also published on our website.

26. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. A draft annual audit report will be issued to SCoSS to confirm factual accuracy.

27. We will provide an independent auditor's report to SCoSS, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide SCoSS 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.

28. [Exhibit 5](#) outlines the target dates for our audit outputs. We acknowledge this may be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 5 2021/22 Audit outputs

Audit Output	Target date	Board Date
Annual Audit Plan	17 March 2022	24 March 2022
Independent Auditor's Report	08 September 2022	15 September 2022
Annual Audit Report	08 September 2022	15 September 2022

Source: Audit Scotland

Timetable

29. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a timetable for the audit at [Exhibit 6](#) that has been discussed with SCoSS.

30. We will continue to discuss and work in close partnership with SCoSS over the course of the audit.

Exhibit 6

Agreed annual report and accounts timetable

 Key stage	 Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package	20 June 2022
Latest date for final clearance meeting with the Accountable Officer and Lead Secretary	01 September 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	08 September 2022
Issue of Annual Audit Report to those charged with governance	08 September 2022
Signed Independent Auditor's Report	15 September 2022

Source: Audit Scotland

Audit fee

31. The agreed audit fee for the 2021/22 audit of SCoSS is £6,120 (2020/21: £6,000). In determining the audit fee, we have taken account of the risk exposure of SCoSS and the planned management assurances in place.

32. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and 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.

Other matters

Independence and objectivity

33. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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 SCoSS is Helen Russell, 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 SCoSS.

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.

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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

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