

Scottish Government

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Government
March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of the Scottish Government¹. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the Scottish Government Consolidated Accounts and the issue of an Independent Auditor's Report setting out our audit opinions on the financial statements, regularity and other statutory information published within the annual report and accounts including the Performance Report, Governance Statement and Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of best value arrangements
- providing assurance on the Scottish Government's contribution to the UK Whole of Government Accounts (WGA) return.

Audit Appointment

2. For the period 2022/23 to 2026/27 inclusive, Audit Scotland will continue to be the appointed auditor for the Scottish Government Consolidated Accounts. Carole Grant has been appointed as engagement lead for the audit.

3. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

4. In addition, where appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

5. We use our initial assessment of risk to inform our planned audit approach and we will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

1. When we refer to the audit of the Scottish Government, we refer to the Scottish Government and its bodies within the Scottish Government accounting boundary. The boundary comprises: the internal portfolios supported by Administration (the Scottish Government core); executive agencies; the Crown Office and Procurator Fiscal Service and the NHS Bodies responsible for the planning, promotion, commissioning, and delivery of healthcare.

Adding value

6. We aim to add value to the Scottish Government by being constructive and forward looking and by recommending and encouraging good practice. We will also attend the Scottish Government Audit and Assurance Committee and Assurance Boards. 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

7. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Scottish Government. Key responsibilities are summarised below.

Auditor responsibilities

8. 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.

9. 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 wider scope arrangements in place at the Scottish Government. In doing this, we aim to support improvement and accountability.

Scottish Government responsibilities

10. The Scottish Government's consolidated accounts report the financial outturn compared to spending plans of Scottish Ministers as set out in the annual budget approved by the Scottish Parliament in the Budget (Scotland) Act. The Accountable Officer is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

11. 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

Introduction

12. The annual report and accounts are an essential part of demonstrating the Scottish Government's stewardship of resources and its performance in the use of those resources.

13. We focus our work on the areas of highest risk. As part of our planning process, we assess any audit risks in the main financial systems relevant to the production of the financial statements.

Materiality

14. The concept of materiality is applied by auditors in planning and performing the audit and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that 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 2022/23 audit

15. We assess materiality at different levels and the materiality values for the Scottish Government (consolidated accounts and core schedules) are set out in [Exhibit 1](#).

Exhibit 1 2022/23 Materiality levels for the Scottish Government

Materiality	Core	Group
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality is based on our assessment of the needs of the users of the financial statements and the nature of the operations. It has been set at 1 per cent of gross expenditure based on the 2022/23 Spring Budget Revision.	£100 million	£500 million

Materiality	Core	Group
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 per cent of planning materiality.	£50 million	£250 million
Reporting threshold – 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 1 per cent of planning materiality and capped at £250,000.	£250,000	£250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of the Scottish Government, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and assurance groups and a review of supporting information.

17. 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. We will inform you of any significant changes in assessed risks and any resulting changes in our planning audit work.

18. 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

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
1. Risk of material misstatement due to fraud caused by management override of controls	Owing to the nature of this risk, assurances from management are not applicable.	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individual involved in the financial reporting process about

Significant risk of material misstatement	Sources of assurance	Planned audit response
<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>This is presumed to be a significant risk in every audit.</p>		<p>inappropriate or unusual journal activity.</p> <ul style="list-style-type: none"> • Test journal entries and other adjustments during the financial year, at the year-end and post-closing entries. Focus on significant risk areas. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accruals and prepayments.
<p>2. Estimation and Judgements – Student loans</p> <p>There is significant estimation and judgement in the measurement, valuation and disclosure of the material account area of Student Loans (2021/22: £4.8 billion).</p> <p>The assumptions used in the valuation model are highly dependent on the macroeconomic environment and as a result are likely to vary in the short term.</p> <p>Estimation and judgements create a higher risk that material areas in the financial statements could be misstated.</p>	<ul style="list-style-type: none"> • Management exercise judgement in line with accounting standards. • Standard processes in place for the use of the model and its outputs. • Student loans model updated for latest assumptions and run after the year end. • Communication between SAAS and Scottish Government. 	<ul style="list-style-type: none"> • Detailed review of the student loans model (assumptions and application). • Assess and where relevant test the management controls in place for the student loans model. • Focused substantive testing of student loans transactions and balances. • Evaluate significant transactions outside the normal course of business. • Consideration of student loans provision including movements. • Review of fair value adjustments affecting student loans asset.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>3. Risk of material misstatement caused by fraud in expenditure</p> <p>Practice Note 10 extends the requirements of ISA 240 to include consideration of fraud in expenditure for public bodies.</p> <p>This is a significant risk for the Scottish Government due to the high volume and diverse nature of its expenditure.</p> <p>There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>In addition, the auditor's opinion on Social Security Scotland agency accounts has been qualified on the grounds of regularity in respect of benefit expenditure each year. As the value of benefits administered by Social Security Scotland increases there is also a need to develop an estimate of the associated level of fraud and error.</p>	<ul style="list-style-type: none"> • The nature of arrangements means that the majority of Scottish Government expenditure is to provide funding to other public bodies. • Sound budgetary control and monitoring arrangements. • Internal audit reports. • Oversight by the Corporate Board. • The audit of the Social Security Scotland internal procedures and the accounts and audit process, including assessment of levels of estimated error provided by the DWP. • Strong counter fraud principles within the SPFM and SG guidance. 	<ul style="list-style-type: none"> • Analytical procedures across expenditure streams to support detailed testing. • Substantive testing of significant transactions across the financial year. • Monitoring of the budgetary process and reporting. • Substantive testing of expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Substantive testing of accruals and prepayments. • Consider any relevant internal audit reports • Regular communication with auditors of Social Security Scotland.

Source: Audit Scotland

19. 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.

20. We have rebutted this risk for the Scottish Government as a significant proportion of its funding (96 per cent) is received from the Scottish Consolidated Fund. Based on this and our analysis of the other income balance, we have concluded the nature of the income does not represent a risk of fraud in revenue recognition.

21. We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

Other areas of audit focus

22. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

23. The areas of specific audit focus are:

- **Estimation and judgement – provisions, financial guarantees and investments.** We recognise that there are significant degrees of estimation in the measurement, valuation and disclosures of these material account areas. This level of estimation and judgements increases the risk of misstatement.
- **IFRS 16 Implementation.** IFRS 16 will be introduced in 2022/23 and will also require an adjustment to the opening balances of taxpayers' equity. This will apply across the Scottish Government group. There is a risk this is incorrectly assessed or disclosed in the financial statements.
- **Presentation and audit of financial statements.** To ensure the audit is completed in accordance with the statutory timescale, it is essential that a complete set of core schedules and a full unaudited set of consolidated accounts are received by the dates agreed. There is a risk that the audit is not completed in line with the timetable or that the financial statements are qualified due to an absence of appropriate working papers.

Group Consideration

24. As group auditors, we are required under International Standard on Auditing (ISA) (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

25. The Scottish Government has a group which comprises component entities, including subsidiaries, associates and joint ventures (refer to footnote on page 3). The audits of the financial information of some these components are performed by other auditors and we plan to place reliance on the work of these component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Wider scope and best value

Introduction

26. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider the adequacy of the arrangements in place for:

- **Financial management** – concerned with financial capacity, sound budgetary processes and the operation of the control environment. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **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 medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the Scottish Government. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the Scottish Government demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

27. Our planned work on wider scope responsibilities is risk based and proportionate. In summary, our wider scope audit will focus on the following risks:

- **Financial sustainability** - Financial pressures will intensify as tougher economic conditions continue to emerge. Shorter term approaches may not be sufficient to support the path to balance in the longer term. We recognise a risk to the future financial sustainability of the Scottish Government without a focus on the delivery and achievement of objectives.
- **Workforce strategy** - Considerable strain in being placed on staffing capacity and wellbeing. This increases the risk that the Scottish Government will not meet its performance ambitions due to not having the right staff in place at the right time with the appropriate skills.

- **Corporate transformation** - The full delivery of the stated aims of the corporate transformation programme within the planned timescales and cost estimates continues to be at risk. This is due to uncertainty over the funding available to deliver the whole programme.
- **Scottish public sector accounts** - The Scottish Government committed to develop devolved public sector accounts on a two-stage basis. There have been delays in finalising the 2020/21 UK Whole of Government Account which forms the basis for these accounts due to ICT issues at HM Treasury. In addition, Scottish Government finance staff availability has impacted progress. There is a risk that longer term decision making will be negatively impacted without a comprehensive and transparent assessment of the state of Scotland's public finances.

28. As a core part of our normal audit process we will also assess progress against our previous recommendations to ensure these are being addressed.

29. In addition to the specific audit risks identified above we also consider challenges which are impacting the public sector as a whole. In 2022/23 we will focus on arrangements for tackling climate change and responding to cyber security threats.

Climate Change

30. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

31. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will consider the findings arising from our performance audit review of the Scottish Government's governance and risk management arrangements for climate change and follow up where appropriate. We are also gathering information across all Scottish public sector bodies on the development of strategies and the monitoring and reporting of progress against targets to provide insight and inform future work.

Cyber Security

32. There continues to be a significant risk of cyber-attacks to public bodies and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider the Scottish Governments' arrangements for managing and mitigating cyber security risks.

Duty of Best Value

33. [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 Government.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

34. Audit reporting is the visible output for the annual audit. All audit outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

35. 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.

36. 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 annual report and accounts. 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.

37. [Exhibit 3](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by 31 October 2023.

Exhibit 3 2022/23 Audit outputs

Audit Output	Target date	Audit and Assurance Committee Date
Annual Audit Plan	28 February 2023	6 March 2023
Management Report	1 June 2023	5 June 2023
Independent Auditor's Report	31 October 2023*	To be confirmed
Annual Audit Report	31 October 2023*	To be confirmed
Section 22 report on the 2022/23 audit of the Scottish Government Consolidated Accounts	31 October 2023*	To be confirmed
Assurance statement on the Whole of Government Accounts	To be confirmed	N/A

Source: Audit Scotland

* These dates represent the date for the independent auditor's report to be signed and the final annual audit report issued. We will provide copies to those charged with governance in advance of the appropriate Audit and Assurance committee to enable them to be considered.



Timetable

38. 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 proposed timetable for the audit at [Exhibit 4](#).

39. The Covid-19 pandemic has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to return the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

40. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. Progress will be discussed with management over the course of the audit.

Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date of complete core schedules with supporting working papers	30 June 2023
Latest submission date for the receipt of the unaudited consolidated financial statements with complete working papers package	7 September 2023
Issue draft annual audit report for clearance discussion	9 October 2023
Latest date for final clearance meeting with the Chief Financial Officer	13 October 2023
Agreement of audited and unsigned Consolidated Accounts	16 October 2023
Issue of annual audit report, letter of representation and proposed independent auditor's report to those charged with governance	18 October 2023
Consideration of audited Consolidated Accounts and audit reporting by those charged with governance	To be confirmed – October 2023
Independent auditor's report signed	31 October 2023
Latest date for WGA assurance	To be confirmed

Source: Audit Scotland

Audit fee

41. In determining the audit fee, we have taken account of the risk exposure of the Scottish Government and the planned management assurances in place. The audit fee for 2022/23 has been set at the baseline level of £1,185,680 (2021/22 £1,181,440).

42. In setting the fee for 2022/23 we have assumed that the Scottish Government continues to have effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit.

43. 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.

Other matters

Internal audit

44. It is the responsibility of the Scottish Government to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

45. Internal audit is provided by the Internal Audit Division (IAD) of the Scottish Government's Directorate of Internal Audit and Assurance (DIAA). International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources.

46. We seek to use the work of internal audit wherever possible to avoid duplication. In 2022/23, we are not planning to place formal reliance on the work of internal audit, however we shall review all internal audit reports and assess the impact of the findings on our audit approach.

Independence and objectivity

47. 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.

48. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

49. The engagement lead for the Scottish Government is Carole Grant, Audit Director. Auditing and ethical standards require the us 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 Government.

Audit Quality

50. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

51. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality

Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

52. Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

53. 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 Government

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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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