

Creative Scotland & Creative Scotland National Lottery Distribution Fund



Annual Audit Plan 2016/17

 AUDIT SCOTLAND

Prepared for Creative Scotland & Creative Scotland National Lottery Distribution Fund

February 2017

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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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with staff and a review of supporting information we have identified the following main risk areas for Creative Scotland & Creative Scotland National Lottery Distribution Fund (CSNLDF). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks for both CS and CSNLDF		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Given the nature of the risk, management assurances are not applicable. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Detailed testing of grant expenditure and income to ensure it has been accounted for in the correct financial year. Review of apportioned costs and accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over expenditure</p> <p>The Code of Audit Practice expands the ISA 240 assumption on fraud over income to aspects of expenditure. CS and CSNLDF incur significant expenditure on the award of grants and we therefore recognise this as a financial statements risk.</p>	<ul style="list-style-type: none"> Controls in place to ensure grants are awarded and paid in line with internal processes and the grant contract. 	<ul style="list-style-type: none"> Walkthrough of controls over grant approval. Detailed testing of grant expenditure to ensure all conditions have been met prior to payments being made.

Audit Risk	Management assurance	Planned audit work
<p>3 Accounting for grants</p> <p>The majority of expenditure in both CS and CSNLDF relates to grant awards. There is a degree of subjectivity in the measurement of grants awarded. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> There is an established accounting policy to cover the recognition of grant awards to ensure they are recorded in the correct financial year. 	<ul style="list-style-type: none"> Detailed testing of grant expenditure to ensure it has been accounted for in the correct financial year. Focused testing of year end estimates and assumptions.
Financial statement issues and risks for CSNLDF only		
<p>4 Risk of fraud over income</p> <p>CSNLDF receives approximately £0.6 million of income from sources other than the National Lottery. The extent of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.</p>	<ul style="list-style-type: none"> Creative Scotland partners with other funders to deliver projects. Controls are in place to ensure income is recorded in the correct financial period. 	<ul style="list-style-type: none"> Detailed testing of income streams focusing on the areas of greatest risk.
Wider dimension risks for both CS and CSNLDF		
<p>5 Financial Sustainability</p> <p>CS's grant in aid award for 2016-17 was reduced by 3.6% from £33.412m to £32.312m.</p> <p>Income received from the Lottery Fund has also been lower than projected.</p> <p>In a challenging environment CS should ensure that it has appropriate budget monitoring and long-term financial planning arrangements.</p>	<ul style="list-style-type: none"> A detailed financial plan is in place to ensure our grant programmes match our income levels over the next five years. Management accounts are presented to every SLT meeting to ensure the financial position is understood in long-term planning. 	<ul style="list-style-type: none"> Review of regular Management Accounts and assumptions for CS and CSNLDF. Review of internal audit's work on Budgetary Control and Reporting.

Reporting arrangements

3. 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.

4. 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.

5. We will provide an independent auditor's report to the members of Creative Scotland, the Auditor General for Scotland and the Scottish Parliament which will give our opinions on the annual report and 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 course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Report including ISA 260 requirements	17 August 2017	31 August 2017
Signed Independent Auditor's Report	1 September 2017	31 August 2017

Audit fee

6. The audit fee for the 2016/17 audit of CS is £36,650 and the audit fee for CSNLDF is £30,880. In determining the audit fee we have taken account of the risk exposure, planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 26 June 2017.

7. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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 outwith our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

8. 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.

9. The audit of the financial statements does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

10. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

11. Auditors in the public sector give an independent opinion on the financial statements. 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

Financial statements

12. The statutory financial statements audit will be the foundation and source for the majority 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 business of CS and CSNLDF and the associated risks which could impact on the financial statements
- completing initial key system evaluations to enhance our understanding and assessing the operation of the key controls
- identifying major transaction streams, balances and areas of estimation and understanding how CS and CSNLDF will include these in 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.

13. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the state of affairs of CS and CSNLDF and their net expenditure for the year
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for CS and CSNLDF are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	CS	CSNLDF
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the 2015/16 audited accounts.	£0.545 million	£0.304 million
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 55% of planning materiality.	£0.300 million	£0.167 million
Reporting threshold - We are required to report to those charged with governance all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£27,000	£15,000



15. It should be noted that we continue to exercise our professional judgement in certain areas of the financial statements such as the performance report, remuneration report and annual governance statement. Any issues identified will be reported to the Audit and Risk Committee.

Timetable

16. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	26 June 2017
Latest date for final clearance meeting with Director of Finance	9 August 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 requirements to those charged with governance	17 August 2017
Independent auditor's report signed	1 September 2017

Internal audit

17. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Henderson Loggie.

Adequacy of Internal Audit

18. Based on the review of internal audit we have concluded that the service operates in accordance with the Public Sector Internal Audit Standards (PSIAS). Appropriate documentation and reporting procedures are evident with reports regularly provided to the Audit and Risk Committee.

Areas of reliance

19. To support our audit opinion on the financial statements we plan to place formal reliance on the planned internal audit review of the grant management systems.

20. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Budgetary control and reporting
- Performance management
- Strategic and operational planning.

Audit dimensions

21. 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



Financial sustainability

22. 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 the financial sustainability in the medium term (two to five years) and longer term (longer than five years). We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

23. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively including:

- the arrangements in place to ensure systems of internal control are operating effectively for CS and CSNLDF
- whether CS and CSNLDF can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how assurance has been gained that the financial capacity and skills are appropriate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

Governance and transparency

24. 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. These include:

- whether CS and CSNLDF can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.

Value for money

25. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether CS and CSNLDF can provide evidence that it is demonstrating value for money in the use of its resources.

Strategic plan for the five year appointment

26. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 6

Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability	Financial planning		
Financial management		Financial governance	Resource management
Governance and transparency	Governance: <i>Role of Boards follow-up</i>		
Value for money			Options appraisal and improvement

Independence and objectivity

27. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

28. The engagement lead for CS and CSNLDF is Carole Grant, 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 CS and CSNLDF.

Quality control

29. 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.

30. 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

31. 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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