

The Queen's and Lord Treasurer's Remembrancer

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for the Queen's and Lord Treasurer's Remembrancer

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, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the Queen's and Lord Treasurer's Remembrancer (QLTR). 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:

Key audit risks

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<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 consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over income</p> <p>The Queen's and Lord Treasurer's Remembrancer does not receive any funding from the Scottish Government. All income comes from receipts from bona vacantia, ultimus haeres and treasure trove cases. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Systems of internal control are designed to mitigate this risk where possible</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Management assurance	Planned audit work
<p>3 Risk of fraud over expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires auditors of public bodies to give consideration of the risk of fraud over expenditure. The level of expenditure in QLTR means that there is an inherent risk of fraud.</p>	<p>Systems of internal control are designed to mitigate this risk where possible</p>	<p>Analytical procedures on expenditure transactions.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>
<p>4 Accountable Officer's Pension Disclosures</p> <p>QLTR is required in its Accounts Direction to comply with the Scottish Public Finance Manual (SPFM). The SPFM does not make specific reference to remuneration and staff disclosures so the disclosure provided in previous years complies with, and goes beyond, the SPFM. However, QLTR prepares its annual report and accounts in line with the best practice set out in the FReM in all other aspects. To ensure that QLTR is consistent in its application of FReM best practice it should disclose pension benefits for the Accountable Officer in the format set out in the FReM.</p>	<p>We do not agree that disclosure of the Accountable Officer's remuneration or pension benefits is required.</p>	<p>Review completeness of pension disclosures for the Accountable Officer and other senior staff in the 2016/17 remuneration and staff report in line with guidance from the Scottish Government.</p>

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 officer(s) to confirm factual accuracy.
5. We will provide an independent auditor's report to the QLTR, Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual 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 in 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	7 July 2017	7 July 2017
Signed Independent Auditor's Report	11 July 2017	N/A

Audit fee

6. The proposed notional audit fee for the 2016/17 audit of QLTR is £3,820. In determining the audit fee we have taken account of the risk exposure of QLTR, the 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 12 May 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 the QLTR and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the QLTR 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 financial position of the audited body and its receipts and payments
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the receipts and payments.



Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that 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 the QLTR are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality level	Amount
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 receipts for the year ended 31 March 2017 based on the latest audited accounts for the year ended 31 March 2016.	£0.109 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	£0.082 million

Materiality level	Amount
professional judgement we have calculated performance materiality at 75% of planning materiality.	
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.001 million

15. We review and report on other information published with the financial statements including the performance report and the accountability report including the governance statement and the remuneration and staff report. 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 QLTR financial statements with complete working papers package	12 May 2017
Latest date for final clearance meeting with Accountable Officer	15 June 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	7 July 2017
Independent auditor's report signed	11 July 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 the Scottish Government Internal Audit Department.

Adequacy of Internal Audit

18. We are currently undertaking a review of the Scottish Government's Internal Audit department. This will be reported to the Scottish Government Audit and Risk Committee in March 2017.

Areas of reliance

19. Internal audit did not carry out any work relating to the QLTR in 2014/15 or 2015/16 and do not have any planned work for 2016/17. Therefore no reliance can be placed on the work of internal audit.

Audit dimensions

20. 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

21. 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 QLTR's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability.

Financial management

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

Governance and transparency

23. 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.

24. The QLTR does not employ staff directly; all staff are seconded from either the Crown Office and Procurator Fiscal Service (COPFS) or Scottish Government. The QLTR shares an Audit and Risk Committee with COPFS.

Value for money

25. Value for money refers to using resources effectively and continually improving services.

26. In accordance with paragraph 53 of the Code of Audit Practice, the QLTR will be audited under the small body provision in 2016/17. We will assess this judgement annually throughout the audit appointment. For 2016/17, application of the full wider scope is not judged to be appropriate. Our annual work on the wider scope will concluding on:

- The appropriateness of the disclosures in the governance statement
- Financial sustainability of the QLTR and the services that it delivers over the medium to long term.

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 the The Queen's and Lord Treasurer's Remembrancer is Gordon Smail, Assistant Director. Auditing and ethical standards require the appointed auditor Gordon Smail 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 QLTR.

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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