

Creative Scotland & Creative Scotland National Lottery Distribution Fund

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Creative Scotland & Creative Scotland National Lottery Distribution Fund

March 2018

Contents

Risks and planned work	4
Audit risks	4
Reporting arrangements	6
Audit fee	7
Responsibilities	7
Audit scope and timing	8
Financial statements	8
Materiality	8
Internal audit	9
Audit dimensions	10
Independence and objectivity	11
Quality control	12
Adding Value	12

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.
2. 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

3. 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 Creative Scotland & Creative Scotland National Lottery Distribution Fund. 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

2017/18 Key audit risks

Audit Risk	Source of 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 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>Detailed testing of grant income and expenditure to ensure this has been accounted for appropriately.</p> <p>Review of the apportionment of costs and accounting estimates for reasonableness.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over expenditure</p> <p>Most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. CS &</p>	<p>Controls in place to ensure grants are awarded and paid in line with internal processes and the grant contract.</p>	<p>Walk through of the grant management system.</p> <p>Detailed testing of grant expenditure to ensure all conditions have been met to</p>

Audit Risk	Source of assurance	Planned audit work
CSNLDF incur significant expenditure on the award of grants and we therefore recognise this as a financial statements risk.		recognise the expense in the financial statements.
<p>3 Accounting for Grants</p> <p>Almost all expenditure incurred by CS & CSNLDF relates to grant funding awarded. There is a degree of subjectivity in the measurement of grants awarded and we recognise that this subjectivity represents a risk of misstatement in the financial statements.</p>	There is an established accounting policy to cover the recognition of grant awards to ensure they are recorded in the correct financial year.	<p>Detailed testing of grant expenditure to ensure it has been accounted for correctly.</p> <p>Focused testing of year end estimates and assumptions.</p>
<p>4 Recharge of Costs to CSNLDF</p> <p>Services provided by Creative Scotland are recharged to CSNLDF on the basis of lottery income over a period of years. With lottery funding declining, there is a risk that the existing 40% level of recharge does not fairly reflect the true cost to Creative Scotland of providing services to the National Lottery Distribution Fund.</p>	There is a policy approved by the Finance and General Purposes Committee detailing the annual process that will determine the recharge level.	Focused testing of the percentage of costs recharged to CSNLDF and the underlying basis upon which this is calculated to ensure it has been accounted for correctly.
Financial Statements Issues and Risks for CSNLDF only		
<p>5 Risk of Fraud/Error over Income</p> <p>CSNLDF receives approximately £0.5m of income from sources other than the National Lottery. The extent and timing of receipt of this income means that there is an inherent risk of fraud or error that requires an audit response.</p>	Creative Scotland partners with other funders to deliver certain projects. Controls are in place to ensure income is recorded in the correct financial period.	Substantive testing across different income streams focussing on areas of greatest risk.
Wider dimension risks		
<p>6 Financial sustainability</p> <p>The Scottish Government increased the Grant in Aid budget awarded to Creative Scotland in 2018/19 to offset the drop in Lottery funding. There is a risk that this may not be sustainable and Creative Scotland should ensure it has appropriate budget monitoring and longer term planning arrangements in place</p>	A detailed financial plan is in place to ensure our grant programmes match income levels over five years. Management accounts are presented to SLT meetings to ensure that performance and expected outturn for the current financial year is understood.	<p>Regular review of CS & CSNLDF Management Accounts to assess performance and assumptions.</p> <p>Review of longer term financial plans.</p>

Audit Risk	Source of assurance	Planned audit work
to address this challenge.		
<p>7 Governance and transparency</p> <p>There have recently been some changes to the composition of the Creative Scotland Board. A new Chair has been appointed following an interim period and two members have resigned.</p> <p>There is a risk to the Board that the public perceive that the openness and transparency of decision making is reduced, which may prevent Creative Scotland from demonstrating high standards of effectiveness in its use of public funds.</p>	<p>All Board, Board Committee and Senior Leadership Team meetings are minuted. Board minutes are published on the Creative Scotland Website.</p> <p>The Code of Conduct for Board Members, approved by Scottish Government, is published on the Creative Scotland Website.</p> <p>Documentation demonstrating compliance with the Freedom of Information (Scotland) Act 2002 is available including guidance on how to make a request on the Creative Scotland website.</p>	<p>Attendance at Board and committee meetings to assess the level of discussion and scrutiny of proposals undertaken.</p> <p>Review of Board and supporting committee meeting minutes.</p>
<p>8 Value for money</p> <p>Creative Scotland reports a number of outcome and performance indicators through its Annual Review of Performance report. The measures do not have specific targets assigned to gauge progress in delivering these outcomes. There is a risk that progress in achieving outcomes cannot be effectively monitored and reported.</p>	<p>Performance indicators are reviewed annually and agreed with Scottish Ministers prior to publishing in the annual plan in accordance with Creative Scotland Framework Agreement with the Scottish Government.</p>	<p>We will review performance reports prepared for the Board to assess progress being made against core objectives and to determine the extent to which targets are set and used to monitor progress.</p>

Reporting arrangements

4. 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.
5. 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.
6. We will provide an independent auditor's report to the members of Creative Scotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on 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.
7. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit & Risk Committee / Board Date
Annual Audit Plan	20 March 2018	15 March 2018
Annual Audit Report	12 October 2018	5 October 2018
Independent Auditor's Report	12 October 2018	5 October 2018

Audit fee

8. The audit fee for the 2017/18 audit of Creative Scotland is £44,470 (16/17 £36,650) and £22,970 (16/17 £30,880) for Creative Scotland National Lottery Distribution Fund. In determining the audit fee we have taken account of the risk exposure of Creative Scotland, 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 2 July 2018.
9. 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 & Risk Committee and Accountable Officer

10. 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.
11. The audit of the financial statements does not relieve management or the Audit & Risk Committee as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.
13. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying 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

14. 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 Creative Scotland and Creative Scotland National Lottery Distribution Fund and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Creative Scotland and Creative Scotland National Lottery Distribution Fund 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.

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

- whether they give a true and fair view of the financial position of Creative Scotland and Creative Scotland National Lottery Distribution Fund
- 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

16. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

17. We calculate materiality at different levels as described below. The calculated materiality values for Creative Scotland & Creative Scotland National Lottery Distribution Fund 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 for the year ended 31 March 2018 based on the budget for 2017/18.	£0.455 million	£0.323 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 60% of planning materiality.	£0.273 million	£0.194 million
Reporting threshold (i.e. clearly trivial) – 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 5% of planning materiality.	£23,000	£16,000

18. We review and report on other information published with the financial statements including the performance report, annual governance statement and the remuneration report. Any issue identified will be reported to the Audit & Risk Committee.

Timetable

19. 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 & Risk Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	2 July 2018
Latest date for final clearance meeting with Director of Finance	10 August 2018
Agreement of audited unsigned annual accounts; Issue of Annual Audit Report including ISA 260 report to those charged with governance	17 August 2018
Independent auditor's report signed	12 October 2018

Internal audit

20. 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

21. Based on the review of internal audit we have concluded that the service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and that appropriate documentation and reporting procedures are evident.

Areas of Internal Audit reliance

22. To support our audit opinion on the financial statements we plan to take cognisance of the internal audit review of the grant management system.

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

- Information Governance
- Legal Compliance Framework

Audit dimensions

24. 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



Source: Code of Audit Practice

Financial sustainability

25. 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 body'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. 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

- 26.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:
- whether Creative Scotland has arrangements in place to ensure systems of internal control are operating effectively
 - whether Creative Scotland & Creative Scotland National Lottery Distribution Fund can demonstrate the effectiveness of 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

- 27.** 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. We will review, conclude and report on:
- whether Creative Scotland 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

- 28.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Creative Scotland and Creative Scotland National Lottery Distribution Fund can provide evidence that they are demonstrating value for money in the use of resources.

Independence and objectivity

- 29.** Auditors appointed by the Accounts Commission or Auditor General 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 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

- 30.** The engagement lead for Creative Scotland and Creative Scotland National Lottery Distribution Fund is Liz Maconachie, 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 Creative Scotland and Creative Scotland National Lottery Distribution Fund.

Quality control

- 31.** 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.
- 32.** 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 relevant 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.
- 33.** 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.

Adding Value

- 34.** Through our audit work we aim to add value to the Audited Body. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the Audited Body has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

Creative Scotland & Creative Scotland National Lottery Distribution Fund

Annual Audit Plan 2017/18

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: