

# Scottish Land Commission

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Scottish Land Commission  
February 2018

## 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.

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.

3. The Scottish Land Commission will be audited under the small body provisions of the Code of Audit Practice due to the size and relative simplicity of the body. Where the application of the full wider scope audit is judged by auditors not to be appropriate to an audited body then our audit work can be tailored to focus on the:

- appropriateness of the disclosures in the governance statement
- financial sustainability of the body and the services that it delivers over the medium to longer term.

## Audit risks

4. 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 Scottish Land Commission. 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
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></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>Evaluation of significant transactions that are outside the normal course of business.</p>

Audit Risk	Source of assurance	Planned audit work
<p><b>2 Risk of fraud over expenditure</b></p> <p>ISA240 and the Code of Audit Practice require auditors to consider the risk of fraud over certain types of public sector expenditure. This includes claims made by individuals and organisations on the public purse. The Scottish Land Commission incurs significant expenditure on research contracts and, in addition, makes expenses payments to its staff.</p>	<p>Compliance with Procurement Policy and Research Quality Assurance Framework in designing and awarding research contracts.</p> <p>Review of staff expenses claims/authorisation.</p>	<p>Review of the arrangements for awarding research contracts.</p> <p>Substantive testing of research contracts.</p> <p>Substantive testing of a sample of expense claims.</p>
<p><b>3 Financial statements preparation and audit</b></p> <p>The Scottish Land Commission is required to prepare financial statements for the first time in 2017/18. The Commission do not employ a professionally qualified accountant and so are reliant on an external contractor to prepare accounts on their behalf. There is a risk that the accounts will not be delivered to the required standards and by the agreed date, and that there will be delays in responding to audit queries which will impact on the delivery of the audit timetable.</p>	<p>Early engagement of contractor with early access to financial management system.</p> <p>Regular progress reporting from contractor and Office Manager to identify potential issues.</p>	<p>Regular discussions with the Chief Executive to identify any ongoing issues in respect of capacity and the impact these may have on the preparation of the financial statements.</p>
<p><b>Wider dimension risks</b></p>		
<p><b>4 Performance management</b></p> <p>The Scottish Land Commission published its first strategic plan in September 2017. The plan contains eight longer term outcomes and is supported by a programme of work under each of the Commission's four priority areas for 2018-2021. A performance management system has yet to be established and so there is a risk that the delivery of the strategic plan is not adequately monitored and reported.</p>	<p>Quarterly Progress Reports submitted to Commissioners meetings.</p> <p>Inclusion of measures and milestones in development of 2018/19 Annual Business Plan.</p> <p>Long-term outcome monitoring framework within Policy Officer workplan for 2018.</p>	<p>Review progress in the development of the performance monitoring system and report progress in our Annual Audit Report.</p>

## Reporting arrangements

**5.** 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](http://www.audit-scotland.gov.uk).

**6.** 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.

**7.** We will provide an independent auditor's report to the Scottish Land Commission 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.

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## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit and Risk Committee date
Annual Audit Report	27 August 2018	3 September 2018
Signed Independent Auditor's Report	3 September 2018	N/A

### Audit fee

**8.** The agreed audit fee for the 2017/18 audit of the Scottish Land Commission is £25,000. In determining the audit fee we have taken account of the risk exposure of the Scottish Land Commission, 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 18 June 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 and 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 and 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 the Scottish Land Commission 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 the Scottish Land Commission 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 Scottish Land Commission's financial position and its income and expenditure
- 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 the Scottish Land Commission are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – 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 latest budget for 2018.	£10,000
<b>Performance materiality</b> – 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.	£6,000
<b>Reporting threshold (i.e. clearly trivial)</b> – 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.	£500

Source: Audit Scotland

**18.** We review and report on other information published with the financial statements including the performance report, accountability report and the remuneration and staff report. Any issue identified will be reported to the Audit and 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 and Risk Committee dates.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	18 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	18 June 2018
Latest date for final clearance meeting with Accountable Officer	10 August 2018
Agreement of audited unsigned annual accounts and issue of Annual Audit Report including ISA 260 report to those charged with governance	27 August 2018
Independent auditor's report signed	3 September 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 the Scottish Government Internal Audit Directorate.

### Adequacy of Internal Audit

**21.** The external auditors of the Scottish Government will review the adequacy of the Scottish Government's Internal Audit department. We plan to take assurance from this work, the results of which are due to be reported to the Scottish Government Audit and Risk Committee in March 2018.

### Areas of Internal Audit reliance

**22.** We plan to place formal reliance on internal audit's work on Corporate Governance and Business Continuity to support our wider dimension audit responsibilities.

## Audit dimensions

**23.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). As noted in paragraph 3, due to the nature and size of the Commission we have assessed the extent of our wider dimension work and concluded that a reduced scope, as outlined in paragraph 53 of the Code of Audit Practice, can be applied. This means that our work will focus on financial sustainability and governance and transparency.

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**24.** 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 following over our four year appointment:

- 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
- whether the Scottish Land Commission can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### **Governance and transparency**

**25.** 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 the following over our four year appointment:

- whether the Scottish Land Commission 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.
- the quality and timeliness of financial and performance reporting.

### **Independence and objectivity**

**26.** 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.

**27.** The engagement lead for the Scottish Land Commission is Maggie Bruce, 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 the Scottish Land Commission.

### **Quality control**

**28.** 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.

**29.** 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.

**30.** 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

**31.** Through our audit work we aim to add value to the Scottish Land Commission. 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 Scottish Land Commission 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.

# Scottish Land Commission

## Annual Audit Plan 2017/18

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