

# Scottish Consolidated Fund

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for the Scottish Government

April 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

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1. 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.
2. The Scottish Consolidated Fund (the SCF) receives sums which have been voted by the UK Parliament as well as receipts collected from devolved taxes. Sums paid out of the SCF are used to support spending plans approved by the Scottish Parliament in the annual Budget Act. The Scottish Government has stewardship of these funds and provides annual accounts of the SCF, reflecting all payments into and out of the fund.
3. 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.

## Audit Dimensions

4. Our audits are based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#). Due to the nature of the SCF and the relatively small number of transactions processed we have determined that the SCF meets the criteria laid down by the Code of Audit Practice (CoAP) to be classified as a small audited body. In line with CoAP guidance our audit dimensions work will therefore focus on financial sustainability and governance and transparency.

## Exhibit 1

### Audit dimensions



Source: Code of Audit Practice

### Financial Management

5. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. Since the Scottish Government manages and operates the SCF, we will review the findings from work carried out by the Scottish Government audit team.

### Governance and transparency

6. 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 the SCF 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.

### Financial sustainability

7. 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 SCF'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.

### Audit risks

8. 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 Consolidated Fund (the SCF). 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 2](#).

## Exhibit 2

### 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>Testing of all transactions.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>ISA 240 presumes a risk of fraud in regard to revenue recognition in the financial statements and Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA assumption to aspects of expenditure.</p>	<p>Sound control and monitoring arrangements.</p>	<p>Testing of all transactions.</p>
<b>Wider dimension risks</b>		
<b>Financial Management</b>		
<p><b>3 Agreement to use QLTR and other receipts</b></p> <p>There remains no agreement in place with Her Majesty's Treasury (HM Treasury) covering the use of Queen's and Lord Treasurer's Remembrancer (QLTR) and other miscellaneous receipts within the SCF. As a result, there is an accumulated balance in the SCF.</p> <p>The Scottish Government has previously indicated they plan to resolve this issue with HM Treasury in their ongoing discussions on the Fiscal Framework.</p> <p>Without an agreement with HM Treasury, there is a risk that</p>	<p>Details of the planned application of accumulated QLTR receipts are detailed in the 2018/19 draft budget.</p>	<p>Review the current plans the Scottish Government has in relation to this matter.</p>

Audit Risk	Source of assurance	Planned audit work
there may be different interpretations for how any accumulated amounts may be applied.		

## Reporting arrangements

9. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 3](#), 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).
10. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy.
11. We will provide an independent auditor's report to the Scottish Government, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the Scottish Consolidated Fund 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 3

### 2017/18 Audit outputs

Audit Output	Target date	SGAAC* meeting date
Annual Audit Report	28 September 2018	24 September 2018
Independent Auditor's Report	28 September 2018	24 September 2018
Assurance statement on SCF Whole of Government Accounts return	27 September 2018	N/A

\*Scottish Government Assurance and Audit Committee

## Audit fee

12. The proposed audit fee for the 2017/18 audit of the SCF is £22,290 [2016/17 £22,020]. In determining the audit fee we have taken account of the risk exposure of the SCF, 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 29 June 2018.
13. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements, 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

### Assurance and Audit Committee and Accountable Officer

14. 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.

15. The audit of the financial statements does not relieve management or the Scottish Government Assurance and Audit Committee as those charged with governance, of their responsibilities.

### **Appointed auditor**

16. 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.



# Audit scope and timing

## Financial statements

**17.** 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 SCF 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
- 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.

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

- whether they properly present the receipts and payments made in the year ended 31 March and balances held at that date
- 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 into and out of the fund.

## Materiality

**19.** 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.

**20.** We calculate materiality at different levels as described below. The calculated materiality values for the SCF are set out in [Exhibit 4](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

## Exhibit 4

### Materiality values

Materiality level	Amount
<p><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 one per cent of judicial salaries (one of the key elements within the Scottish Consolidated Fund) for the year ended 31 March 2018 based on the 2016/17 audited accounts.</p>	£0.3 million
<p><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 90 per cent of planning materiality.</p> <p>Although we set at 90 per cent of planning materiality, in practice, due to the nature of the account, we test all receipts and payments into and out of the fund, recognising that any payment that is not in accordance with applicable legislation would require us to report as part of our opinion on the financial statements.</p>	£0.27 million
<p><b>Reporting threshold</b> – For this audit, we have determined that we are required to report to those charged with governance on all unadjusted misstatements.</p>	



21. We review and report on other information published with the financial statements including the Governance Statement. Any issues identified will be reported to the Accountable Officer.

### Timetable

22. 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 5](#) which takes account of submission requirements and planned Audit Committee dates:

## Exhibit 5

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Latest date for final clearance meeting with Scottish Government	31 August 2018
Agreement of audited unsigned annual accounts and issue of Annual Audit Report including ISA 260 report to those charged with governance	19 September 2018
Independent auditor's report signed	26 September 2018
Latest date for signing of WGA return	27 September 2018

## Internal audit

- 23.** 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

- 24.** A review of the effectiveness of Internal Audit will be carried out by the Scottish Government audit team and any findings will be reviewed for relevance to the audit of the SCF.

### Areas of Internal Audit reliance

- 25.** We will be taking a fully substantive approach to the audit and therefore we are not planning to place reliance on Internal Audit's work.

## 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 and appointed auditor for the SCF is Stephen Boyle, Assistant Director. 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 SCF.

## 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 Government. 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 SCF 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 Consolidated 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](mailto:info@audit-scotland.gov.uk)

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