

Scottish Government

Annual Audit Plan 2020/21



 **AUDIT SCOTLAND**

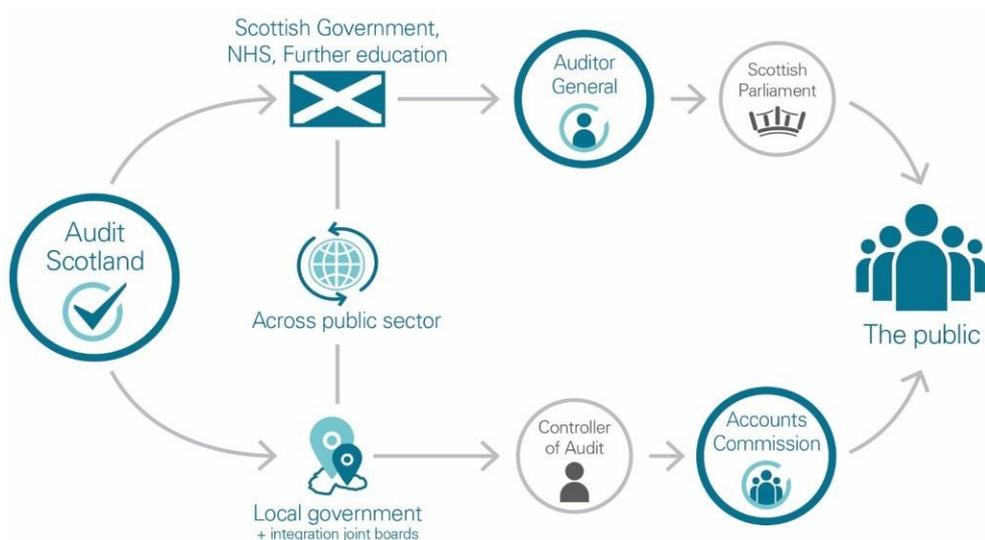
Prepared for the Scottish Government
March 2021



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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Audit risks and planned work

1. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the 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 Government's consolidated accounts report the financial outturn compared to spending plans of Scottish Ministers as set out in the annual budget approved by the Scottish Parliament in the Budget (Scotland) Act.

3. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and guidance on planning the audit. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

4. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

5. We fully recognise the unique and significant pressures the public sector is under in responding to the threat posed by the current coronavirus disease (Covid-19) pandemic. Our approach to audit during the pandemic aims to be flexible, pragmatic and consistent.

6. The public health crisis caused by the Covid-19 pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both Scottish and UK governments to provide substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

7. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. The wellbeing of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

8. We aim to add value to the Scottish Government through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Scottish Government promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

9. Based on our discussions with staff, attendance at Audit and Assurance Committee meetings, Director-General assurance meetings and a review of supporting information, we have identified the following significant audit risks for the Scottish Government. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

10. The ongoing uncertainty created by the pandemic and the current restrictions imposed means we may be required to make further changes to the planned audit approach and timetable. We will continue our regular engagement with the Scottish Government to discuss how we can work together to respond in these circumstances.

Exhibit 1 2020/21 Significant audit risks

	Audit Risk	Source of assurance	Planned audit work
1	<p>Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Consideration of internal audit reports.</p> <p>Substantive cut-off testing of income and expenditure transactions to ensure accounted for in the correct financial year.</p> <p>Consideration of the results of controls testing.</p>
2	<p>Risk of material misstatement caused by fraud in expenditure</p> <p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>In addition, with further devolution, benefits expenditure has increased by over £3 billion in 2020/21. In 2019/20, the auditor of Social Security Scotland qualified their regularity opinion because of overpayments of Carer's Allowance.</p>	<p>The nature of arrangements means that the majority of Scottish Government expenditure is to provide funding to other public bodies.</p> <p>Sound budgetary control and monitoring arrangements.</p> <p>Internal audit reports.</p> <p>Oversight by the Corporate Board.</p>	<p>Perform detailed testing of significant transactions, particularly around the financial year end.</p> <p>Carry out analytical procedures.</p> <p>Monitor budgetary process and reporting.</p> <p>Consider any internal audit reports.</p> <p>Regular communication with auditors of the Social Security Scotland Agency.</p>

 Audit Risk	Source of assurance	Planned audit work
<p>Given the high volume and diverse nature of expenditure incurred by the Scottish Government, there is a risk of fraud over expenditure.</p>		
<p>3 Covid-19 expenditure</p> <p>In response to the Covid-19 pandemic, there has been a significant increase in expenditure of £8.6 billion, involving delivery organisations such as local authorities, enterprise agencies and health bodies.</p> <p>Decision-making in a fast-moving environment presents challenges for the Scottish Government. These include maintaining good governance and controls while making decisions quickly, adapting performance measures and ensuring that anti-fraud arrangements remain robust at a time when the risk of fraud is increased.</p> <p>There is a risk that assurance processes within the Scottish Government in relation to Covid-19 spend are limited and that internal control processes are compromised increasing the risk of material misstatement due to fraud, reported in the Consolidated Accounts.</p>	<p>The nature of arrangements means that Scottish Government expenditure is to provide funding to other public bodies.</p> <p>Sound budgetary control and monitoring arrangements, including oversight of Covid-19 spend.</p> <p>Internal audit reports.</p>	<p>Review of the extent and nature of Covid-19 grants distributed by the Scottish Government.</p> <p>Consideration of the governance and accountability arrangements for distributing Covid-19 funding, including the level of scrutiny and steps taken to minimise fraud and error.</p> <p>Review of performance targets for the efficiency and effectiveness of Covid-19 funding.</p> <p>Consideration of internal audit's work on Covid-19 grants.</p>
<p>4 Estimation and judgements</p> <p>There are significant degrees of management estimation in the measurement, valuation and disclosures of material account areas, including student loans, investments, contingent liabilities, financial guarantees and provisions.</p> <p>Specifically, in relation to student loans, the assumptions used in the valuation model are highly dependent on the macroeconomic environment and as such are likely to vary in the short term.</p> <p>Estimations and judgements create a higher risk that material areas in the accounts could be misstated.</p>	<p>Management exercise judgement in line with accounting standards.</p> <p>Non-statutory guarantees or indemnities in excess of £1 million require the approval of the Scottish Parliament.</p> <p>A record of contingent liabilities, guarantees, indemnities and letters of comfort is maintained by management.</p> <p>Evaluation of guarantees involves financial modelling to simulate sources of uncertainty.</p>	<p>Review of the student loans model (assumptions and application).</p> <p>Focused substantive testing.</p> <p>Review of the identification of, and record of, contingent liabilities, guarantees, indemnities and letters of comfort.</p> <p>Test assumptions in contingent liability financial modelling.</p> <p>Review the disclosure of student loans, investments, contingent liabilities and guarantees.</p>

	Audit Risk	Source of assurance	Planned audit work
5	<p>Group audit considerations</p> <p>The Scottish Government consolidated accounts are group accounts which include the financial results of all bodies within the Scottish Government accounting boundary. There are risks associated with the 2020/21 consolidation process including:</p> <ul style="list-style-type: none"> the continuing impact of the Covid-19 pandemic may lead to delays or difficulties in the preparation and audit of component bodies' accounts which may impact on the timing, preparation and audit of the group accounts. the auditor's opinion on Social Security Scotland (SSS) agency accounts has been qualified in the last two years, on the grounds of regularity in respect of Carer's Allowance benefit expenditure. This was assessed as not material to the consolidated accounts. With further devolution, benefits expenditure is expected to increase by £3 billion in 2020/21. There is a risk that the SSS audit qualification could become material to the consolidated accounts. 	<p>Established consolidation process in place.</p> <p>Statutory audits of component bodies.</p>	<p>Ongoing engagement with component auditors.</p> <p>Guidance and information requests issued to component auditors to support group audit procedures.</p> <p>Review of consolidation packs received.</p>

Wider dimension risks

Governance and transparency

6	<p>Financial governance</p> <p>Decision-making in a fast-moving environment presents a challenge for the Scottish Government and other public bodies. These challenges include ensuring:</p> <ul style="list-style-type: none"> revised governance arrangements are appropriate and operating effectively, including risk-management arrangements anti-fraud arrangements remain robust there is effective scrutiny, challenge and informed decision making 	<p>Updated financial policies and guidance such as counter fraud, grants, financial accountability and assurance, funding and state aid rules.</p> <p>Scrutiny and challenge through governance groups such as people and finance meetings and DG assurance meetings.</p> <p>Internal audit reports.</p>	<p>Consideration of revised financial governance and accountability arrangements including the level of scrutiny and challenge and steps taken to minimise fraud and error.</p> <p>Consideration of internal audit's work.</p>
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	Audit Risk	Source of assurance	Planned audit work
	<ul style="list-style-type: none"> performance reporting is timely, reliable, balanced, transparent and appropriate to user needs. <p>The pace of decision making, combined with remote working throughout 2020/21 means there is a risk that appropriate financial governance (such as effective controls) has not been applied leading to poor financial decision making and the potential for fraud and error.</p>		
7	<p>Investment in core systems</p> <p>There has been a lack of investment in core IT systems of the Scottish Government. The risk that the current systems will not be able to cope with the expanding demands placed on them is recognised by the Scottish Government.</p> <p>Our audit reports in 2018/19 and 2019/20 highlighted issues and risks from our audit work carried out on the main IT systems that impact on the financial statements, including SEAS General Ledger, payroll and procurement. These include cyber security risks as well as risks of system failure or fraud and error.</p>	<p>There is a significant IT project (£18.3m) planned to deliver a shared service programme (ERP, Enterprise Resource Planning) by July 2023 which will cover all transactional services.</p> <p>Long-term system replacement plans to be prepared.</p> <p>Work continues on IT Security Policy redevelopment and alignment with the latest National Cyber Security Centre guidelines.</p>	<p>Monitor actions taken to address risks via the Corporate Risk Register.</p> <p>Test key internal controls for the main IT systems that impact on the financial statements.</p> <p>Review shared service programme (ERP) plans.</p>
8	<p>Scottish public sector accounts</p> <p>The Scottish Government has committed to providing accounts for the whole public sector in Scotland. Progress was delayed in 2019/20 due to the Covid-19 pandemic.</p> <p>In the absence of such an account, there is a risk of significant financial decisions being made without a clear picture of what is owned and owed by the wider Public Sector in Scotland.</p>	<p>Final plan to be agreed for audit and publication.</p>	<p>Continued engagement with officials to understand the reporting basis that will be selected by officials for the account, so that we can continue to develop our audit approach for the first set of accounts.</p>
9	<p>Sponsorship</p> <p>In 2019/20 we reported that, the Scottish Government's planned actions to improve its sponsorship arrangements had largely been paused due to Covid-19. There is a need for the Scottish Government to clearly outline and</p>	<p>Ongoing training, including workshops for sponsor leads, provided by the Public Bodies Unit aimed at strengthening the governance and oversight of public bodies in Scotland.</p>	<p>Monitor progress against the recommendations with Scottish Government officials.</p> <p>Review any further updates to the SPFM and related guidance.</p>

	Audit Risk	Source of assurance	Planned audit work
	<p>maintain effective sponsoring arrangements, including clear roles and responsibilities, clarity over future funding arrangements and expectations of organisational performance. This includes how risks within sponsored bodies are escalated to the Scottish Government.</p> <p>If sponsorship arrangements across government are not consistently effective, there is a risk to the delivery of outcomes and achievement of value for money.</p>		
10	<p>Procurement</p> <p>The impact of the pandemic required quick responses from the Scottish Government which included extending existing contracts and entering new contracts to obtain goods and services to address Covid-19 challenges.</p> <p>There is a risk of procurement fraud and corruption where controls may be relaxed to help facilitate the quick purchase of goods and services.</p>	<p>Additional Covid-19 procurement guidance.</p> <p>Updates to SPFM.</p>	<p>Review a sample of extended or new Covid-19 related contracts, assessing controls applied.</p> <p>Consider any internal audit reports.</p>
Value for money			
11	<p>Financial interventions framework</p> <p>The need to develop a clear framework to outline the Scottish Government's approach to providing financial assistance to private companies was highlighted in the section 22 report presented to the Scottish Parliament in December 2020 and has been highlighted to the Scottish Government for several years. We reported that the Scottish Government needs to set out its approach to risk tolerance, financial capacity and expected outcomes.</p> <p>In doing so, the Government needs to ensure that there is greater transparency over the financial support that is provided and the value of public funds that are committed.</p> <p>There is a risk that in the absence of a framework, value for money</p>	<p>The Scottish Government is developing a series of principles of support for financial intervention. This includes the development of a database which identifies companies of strategic importance to Scotland.</p> <p>The principles also outline the Scottish Government's consideration of HM Treasury's Green Book which applies five tests to intervention: strategic, economic, financial, commercial and management.</p> <p>Procedural guidance within the Scottish Public Finance Manual to support Accountable Officers and the decision-making process for potential interventions.</p>	<p>Discuss progress against the recommendations with Scottish Government officials.</p> <p>Review any significant financial assistance offered to private companies during 2020/21.</p>

⚠	Audit Risk	Source of assurance	Planned audit work
	may not be obtained from such interventions.		
Source: Audit Scotland			

11. As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2020/21 because most of the income (96%) relates to Scottish Consolidated Fund (SCF) drawdowns. Based on the analysis of this other income (4%: £1.752 million), we consider that the nature of this income from sources other than SCF drawdowns does not represent a risk of fraud in revenue recognition.

Reporting arrangements

12. 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.

13. 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.

14. The Auditor General for Scotland will provide an independent auditor's report to the Scottish Government and the Scottish Parliament setting out his opinions on the consolidated accounts. We will provide the Principal 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 audit.

Exhibit 2 2020/21 Audit outputs

Audit output	Target date	Committee date
Overview of Internal Audit	1 June 2021	21 June 2021
Management Report	1 June 2021	21 June 2021
Annual Audit Report	13 December 2021	13 December 2021
Independent Auditor's Report	14 December 2021	N/A
Section 22 report on the 2020/21 audit of the Scottish Government Consolidated Accounts	16 December 2021	N/A
Assurance statement on the Whole of Government Accounts	31 January 2022	N/A

Source: Audit Scotland

Audit fee

15. The agreed audit fee for the 2020/21 audit of the Scottish Government is £1,157,850 (2019/20 £1,129,720). In determining the audit fee, we have taken

account of the risk exposure of the Scottish Government, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

16. Our audit approach assumes receipt of a complete set of core schedules with comprehensive supporting working papers including a clear audit trail between the working papers and the core schedules on 30 June 2021. It also assumes receipt of the draft consolidated accounts with supporting working papers together with a clear audit trail between the working papers and the draft consolidated accounts on 30 September 2021.

17. Where our audit cannot proceed as planned through, for example, late receipt of unaudited core schedules or consolidated accounts, poor quality working papers 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 out with our planned audit activity.

Responsibilities

Audit and Assurance Committee and Principal Accountable Officer

18. 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.

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

Appointed auditor

20. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

21. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. 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

Consolidated accounts

22. The consolidated accounts, which include the financial statements, will be the foundation and source for most 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 Government 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 Government 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.

23. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of affairs of the Scottish Government and the consolidation of the entities within the departmental accounting boundary as at 31 March 2021 and of the income and expenditure of the Scottish Government and the consolidation of the entities within the departmental accounting boundary and of the net resource outturn and resources applied to objectives for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Financial Reporting Manual (FReM); and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the consolidated accounts

24. We also review and report on statutory other information published within the consolidated accounts including the performance report, governance statement and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

25. We also review the content of any information in the consolidated accounts other than the financial statements and audited part of the remuneration report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

26. 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 opinions in the independent auditor's report.

27. We calculate materiality at different levels as described below. The calculated materiality values for the Scottish Government (consolidated accounts and core schedules) are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Scottish Government Consolidated Financial Statements	
Planning materiality – This is the figure we calculate to assess 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 2021 based on the 2020/21 Autumn Budget Revision.	£487 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 50% of planning materiality.	£244 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality and capped at £0.25 million.	£0.25 million
Scottish Government Core Schedules	
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of core expenditure for the year ended 31 March 2020 based on the 2019/20 Autumn Budget Revision.	£123 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 50% of planning materiality.	£62 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at one per cent of planning materiality and capped at £0.25 million.	£0.25 million

Source: Audit Scotland

Timetable

28. The annual accounts timetable is outlined at [Exhibit 4](#). This has been developed in discussion with the Scottish Government. The ongoing uncertainty created by the pandemic and the current restrictions imposed means we may be required to make further changes to the timetable. We will continue to assess the

timescales in dialogue with the Scottish Government and will keep the Audit and Assurance Committee updated with our audit progress.

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of complete core schedules with supporting working papers	30 June 2021
Latest submission date of complete unaudited consolidated financial statements with supporting working papers	30 September 2021
Latest date for final clearance meeting with the Chief Financial Officer	By 12 November 2021
Agreement of audited unsigned financial statements; issue of Annual Audit Report including ISA 260 report to those charged with governance	6 December 2021
Independent auditor's report signed	14 December 2021

Internal audit

29. Internal audit is provided by the Internal Audit Division (IAD) of the Scottish Government's Directorate of Internal Audit and Assurance (DIAA). As part of our planning process we carry out an annual assessment of internal audit to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA (UK) 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

30. International 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 to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

31. From our initial review of internal audit plans we intend to consider placing reliance on their review of corporate systems. We will also take consideration of other internal audit reports, including Risk Management and Governance reviews, as part of our audit.

Audit dimensions

32. 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

33. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

Financial sustainability

34. 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 Scottish Government's ability to demonstrate its 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 Scottish Government's progress in developing its approach to strategic public financial management in the context of new financial powers
- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- whether the Scottish Government can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

35. 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 the Scottish Government has arrangements in place to ensure systems of internal control are operating effectively
- whether the Scottish Government can demonstrate the effectiveness of budgetary control systems in communicating accurate and timely financial performance

- how the Scottish Government has assured itself that its financial capacity and skills are appropriate
- whether the Scottish Government has appropriate and effective arrangements for the prevention and detection of fraud and corruption
- progress in addressing the findings of the National Fraud Initiative (NFI).

Governance and transparency

36. 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 Scottish Government can demonstrate that its governance arrangements 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.

Value for money

37. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- the Scottish Government can provide evidence that it is demonstrating value for money in the use of resources
- the Scottish Government can demonstrate that there is a clear link between money spent, output and outcomes delivered
- the Scottish Government can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best Value

38. The Principal Accountable Officer of the Scottish Government has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

39. Our approach to the Scottish Government integrates the annual audit work and our wider programme of national performance audits. Together, these provide a strong basis for us to assess the Scottish Government's position in relation to each of the four audit dimensions and to maximise the value of our audit reports.

Independence and objectivity

40. 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 robust arrangements in place 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.

41. The Auditor General for Scotland is the appointed auditor of the Scottish Government. The engagement lead for the audit of the Scottish Government is Michael Oliphant, Audit Director. Auditing and ethical standards require the engagement lead, 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 Government.

Quality control

42. 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.

43. 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

44. 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.

Scottish Government

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