

# King's and Lord Treasurer's Remembrancer

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for King's and Lord Treasurer's Remembrancer

February 2024

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# Contents

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Introduction	3
Annual report and accounts	5
Wider Scope and Best Value	9
Reporting arrangements, timetable, and audit fee	10
Other matters	12

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2023/24 audit of King's and Lord Treasurer's Remembrancer (KLTR). The main elements of the audit include:

- an audit of the financial statements and provision of an Independent Auditor's Report expressing opinions on the different elements of the annual report and accounts
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas and provision of an Annual Audit Report setting out our conclusions on these.

## Respective responsibilities of the auditor and KLTR

2. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and KLTR. Key responsibilities are summarised below.

### Auditor responsibilities

3. 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.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at KLTR. In doing this, we aim to support improvement and accountability.

### KLTR's responsibilities

5. KLTR is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that properly present its receipts and payments. It is also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

6. KLTR has 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 deliver their objectives.

## **Communication of fraud or suspected fraud**

**7.** In line with ISA 240, in presenting this plan to the KLTR Board we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the Board have any such knowledge or concerns relating to the risk of fraud within KLTR, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process

## **Adding value**

**8.** We aim to add value to KLTR through our external audit work by being constructive and forward looking, by attending meetings of the Board and by recommending and encouraging good practice. In so doing, we will help KLTR promote improved standards of governance, better management and decision making and more effective use of resources.

# Annual report and accounts

## Introduction

**9.** The annual report and accounts are an essential part of demonstrating KLTR's stewardship of resources and its performance in the use of those resources.

**10.** As part of our audit, we perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

**11.** Our work will focus on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**12.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We plan our work to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2023/24 audit

**13.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for KLTR are set out in [Exhibit 1](#)

## Exhibit 1

### 2023/24 Materiality levels for KLTR

Materiality	Amount
<b>Planning materiality</b> – this is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of KLTR's operations. For the year ended 31 March 2024, we have set our materiality at 2% of Gross Receipts based on the audited financial statements for 2022/23.	£225,000

**Performance materiality** – this acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality. £169,000

**Reporting threshold (i.e. clearly trivial)** – we are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £11,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**14.** Our risk assessment draws on our cumulative knowledge of KLTR, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with the Crown Office and Procurator Fiscals Service's internal audit, attendance at committees, and a review of supporting information.

**15.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

**16.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

### Exhibit 2

#### 2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals at the year-end and focus on significant risk areas.</li> </ul>

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> <li>• Consider the need to test journal entries and other adjustments during the year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of arrangements in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> </ul>

Source: Audit Scotland

**17.** We did not identify any non-significant risks of material misstatement that require a specific audit response over and above our standard audit procedures.

**18.** As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk as KLTR are not required to meet financial targets or set a budget thus reducing the incentives or pressures on management to fraudulently report income. In addition, KLTR prepare receipts and payments accounts on the basis of cash accounting thus reducing the risk of income being incorrectly allocated.

**19.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

**20.** We have rebutted this risk for KLTR because there is no requirement to meet financial targets as it is a demand-led service. This reduces the pressure on management to misstate expenditure. In addition, KLTR operate a receipts and payments accounts on the basis of cash accounting thus reducing the risk of expenditure being incorrectly allocated.

**21.** Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas in addition to our standard audit procedures.

## Regularity

**22.** Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

**23.** We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.



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# Wider Scope and Best Value

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## Introduction

**24.** The [Code of Audit Practice 2021](#) sets out the four areas that frame the wider scope of public sector audit. Auditors are required to consider the adequacy of the audited body's arrangements for these areas unless the auditor judges it is not appropriate due to the body's size, nature, and audit risks (less complex body).

**25.** Based on KLTR's receipts, payments, assets and liabilities, the lack of wider scope risks and the level of public scrutiny we have concluded that it is appropriate to apply the less complex body approach to the 2023/24 audit. Consequently, our wider scope and Best Value audit work will focus on the appropriateness of the disclosures in the Governance Statement and KLTR's financial sustainability.

## Wider scope risks

**26.** Our planned work on the wider scope areas is risk based and proportionate. We have not identified any wider scope audit risks for the 2023/24 audit of KLTR. There are no prior year wider scope recommendations to follow up in 2023/24.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**27.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

**28.** We will provide an independent auditor's report to KLTR, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will also provide KLTR and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit

**29.** [Exhibit 3](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland and we aim to issue the independent auditor's report by the target date of 31 October 2024 set out in Audit Scotland's planning guidance for 2023/24.

## Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Board Date
Annual Audit Plan	31 March 2024	22 February 2024
Independent Auditor's Report	31 October 2024	7 August 2024 (TBC)
Annual Audit Report	31 October 2024	7 August 2024 (TBC)



Source: Audit Scotland

**30.** All Annual Audit Plans and the outputs 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).

## Timetable

**31.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

**Exhibit 4****Proposed annual report and accounts timetable**

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	27 May 2024
Consideration of the unaudited annual report and accounts by those charged with governance	13 June 2024
Latest date for final clearance meeting with the Head of Management Accounting and Planning	23 July 2024
Agreement of audited unsigned annual accounts Issue of Annual Audit Report to those charged with governance.	30 July 2024
Signed Independent Auditor's Report	7 August 2024 (TBC)

Source: Audit Scotland

**32.** We have been advised that the main contact for the preparation of KLTR's annual report and accounts will leave the organisation in early June 2024, and that initial attempts to recruit a replacement have been unsuccessful. Our ability to complete the audit by the timescales set out above is dependent on there being sufficient finance staff available to respond promptly to audit queries and requests for supporting documentation. Progress against the timetable will be discussed with management throughout the audit process as the impact of staffing changes within KLTR's finance team becomes clearer.

**Audit fee**

**33.** In determining the audit fee, we have taken account of the risk exposure of KLTR and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £4,520 (2022/23: £4,270), an increase of 5.9%.

**34.** In setting the fee for 2023/24, we have assumed that KLTR has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**35.** It is the responsibility of KLTR to establish adequate internal audit arrangements. KLTR relies on the Crown Office and Procurator Fiscal Service's (COPFS) financial systems to produce its annual report and accounts and COPFS internal audit service for assurance over these systems. No additional internal audit work is planned for KLTR during 2023/24. We do not plan to place any formal reliance on internal audit work to support our opinion on the 2023/24 financial statements.

## External audit team

**36.** The engagement lead (i.e. appointed auditor) for the 2023/24 audit of KLTR is Maggie Bruce, Senior Audit Manager. Zahrah Mahmood, Audit Manager and Euan Mackintosh, Professional Trainee will continue to work with Maggie to deliver the audit.

## Independence and objectivity

**37.** We are independent of KLTR in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

**38.** Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**39.** The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of KLTR.

## Audit Quality

**40.** Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

**41.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management

(SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

**42.** To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

**43.** Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

**44.** Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

# King's and Lord Treasurer's Remembrancer

## Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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