

Scottish Government

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for the Scottish Government

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Introduction

Summary of planned audit work

1. This document summarises the work plan for the 2023/24 external audit of the Scottish Government¹. The main elements include:

- evaluation of the key controls within the main accounting systems
- an audit of the Scottish Government Consolidated Accounts and providing an opinion on whether they give a true and fair view and are free from material misstatement
- providing an audit opinion on regularity and other statutory information published in the annual report and accounts, including the Performance Report, Governance Statement and Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- provision of an Annual Audit Report setting out conclusions on all aspects of the audit
- providing assurance on the Scottish Government's UK Whole of Government Accounts (WGA) return.

2. The Auditor General for Scotland is the auditor of the Scottish Government. Carole Grant is the engagement lead responsible for the delivery of the audit. The 2023/24 financial year is the second of the current five-year audit appointment and there has been no change to the key members of the audit team.

Respective responsibilities of the auditor and the Scottish Government

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

¹When we refer to the audit of the Scottish Government, we refer to the Scottish Government and its bodies within the Scottish Government accounting boundary. The boundary comprises: the internal portfolios supported by Administration (the Scottish Government core); executive agencies; the Crown Office and Procurator Fiscal Service and the NHS bodies responsible for the planning, promotion, commissioning, and delivery of healthcare.

Auditor responsibilities

4. Audit Scotland's responsibilities as appointed 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 Financial Reporting Council's Ethical Standard.

5. 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 the Scottish Government. In doing this, we aim to support improvement and accountability.

Scottish Government's responsibilities

6. 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. The Scottish Government is responsible for maintaining adequate accounting records and internal controls and preparing consolidated financial statements for audit that give a true and fair view.

7. The Scottish Government 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.

Adding Value

8. We aim to add value by being constructive and forward looking and providing independent conclusions on all aspects of the audit. We will attend assurance group and audit and assurance meetings and recommend and encourage good practice. In so doing, we will help the Scottish Government 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 the Scottish Government's stewardship of resources and its performance in the use of those resources.

10. We are required to 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. We do this in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 and guidance from Audit Scotland.

11. We focus our work 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 are required to plan our audit 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. The materiality values for the Scottish Government (core and consolidated accounts) are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for the Scottish Government

Materiality	Core	Consolidated
Planning materiality – This figure allows us to assess the overall impact of audit adjustments on the financial statements. Materiality is based on our assessment of the needs of the users of the financial statements and the nature of operations. For the year ended 31 March 2024, we have set materiality at 1 per cent of gross expenditure based on the 2023/24 budget.	£100 million	£600 million

Materiality	Core	Consolidated
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this indicates that further audit procedures should be considered. Using our professional judgement, we have set performance materiality at 50 per cent of planning materiality.	£50 million	£300 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 set at £1 million to reflect the presentation of amounts within the financial statements.	£1 million	£1 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of the Scottish Government, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at assurance groups and 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 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 risks, management's sources of assurance, and the further audit procedures we plan to perform to gain the necessary assurance.

Exhibit 2**2023/24 Significant risks of material misstatement to the consolidated financial statements**

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in every audit.</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"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual journal activity or other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the year. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments.
<p>2. Risk of fraud in expenditure</p> <p>Practice Note 10 extends the requirements of ISA 240 to include consideration of fraud in expenditure for public bodies. We recognise that due to the high volume and diverse nature of the Scottish Government's expenditure, including the qualification of the Social Security Scotland</p>	<ul style="list-style-type: none"> • External audit of all component bodies. • Established consolidation procedures, including regular communication and issuing of guidance. • The nature of arrangements means that the majority of Scottish Government expenditure 	<ul style="list-style-type: none"> • Receipt of component auditor questionnaires and consolidation packs. • Evaluation and review of the component auditor's work where appropriate. • Analytical procedures across expenditure streams to support detailed testing.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>accounts on the grounds of regularity in respect of benefits expenditure, there is a risk that expenditure could be misstated.</p>	<p>is to provide funding to other public bodies.</p> <ul style="list-style-type: none"> • Sound budgetary control and monitoring arrangements. • Internal audit reports. • Oversight by the Corporate Board. • The audit of the Social Security Scotland internal procedures and the accounts and audit process, including assessment of levels of estimated error provided by the DWP. • Strong counter fraud principles within the SPFM and SG guidance. 	<ul style="list-style-type: none"> • Substantive testing of significant transactions across the financial year. • Monitoring of the budgetary process and reporting. • Substantive testing of expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Substantive testing of accruals and prepayments. • Consider any relevant internal audit reports. • Regular communication with auditors of Social Security Scotland.
<p>3. Estimation and judgement in the valuation of student loans</p> <p>There is a significant degree of estimation and judgement in the valuation of the material account area of Student loans. (2022/23: £5.7 billion).</p> <p>The assumptions used in the valuation model are highly dependent on the macroeconomic environment and as a result are likely to vary in the short-term increasing the risk of material misstatement.</p>	<ul style="list-style-type: none"> • Management exercise judgement in line with accounting standards. • Standard processes in place for the use of the model and its outputs. • Student loans model updated for latest assumptions and run after the year end. • Communication between SAAS and Scottish Government. 	<ul style="list-style-type: none"> • Detailed review of the student loans model (assumption and application). • Assessment and where relevant testing of the management controls in place for the student loans model. • Focused substantive testing of student loans transactions and balances. • Evaluation of significant transactions outside the normal course of business. • Consideration of student loans provision including movements. • Review of fair value adjustments affecting student loans asset.
<p>4. Estimation and judgement in the valuation of provisions, financial guarantees and investments</p> <p>There is a significant degree of estimation in the</p>	<ul style="list-style-type: none"> • Management exercise judgement in line with accounting standards. • Specialist advice is obtained where appropriate. 	<ul style="list-style-type: none"> • Detailed review of the provisions, financial liabilities and financial assets account areas. • Substantive testing of advances and repayments transactions.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>measurement, valuation and disclosures of the material account areas of provisions and investments as well as the disclosures for financial guarantees.</p> <p>Estimations and judgements increase the risk of misstatements.</p>		<ul style="list-style-type: none"> • Review of fair value adjustments and unwinding of discounts as relevant. • Detailed review of the work of any management expert used in the valuation process. • Review of accounting estimates for biases.
<p>5. Estimation and judgement in the valuation of property, plant and equipment</p> <p>There is a significant degree of subjectivity in the valuation of property, plant and equipment, including the consolidation of the road network.</p> <p>Assets are subject to regular revaluation with indexation applied in the intervening period as appropriate.</p> <p>The valuation of the road network is technically complex and is based on specialist knowledge and management assumptions.</p>	<ul style="list-style-type: none"> • External audit of all component bodies. • Established consolidation procedures, including regular communication and issuing of guidance. • Valuations undertaken by external valuers. 	<ul style="list-style-type: none"> • Receipt of component auditor questionnaires and consolidation packs. • Evaluation and review of the component auditor's work where appropriate.

Source: Audit Scotland

17. 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.

18. We have rebutted this risk for the Scottish Government as a significant proportion of funding (97 per cent in 2022/23) is received from the Scottish Consolidated Fund. Based on this and our analysis of the other income streams, we have concluded that the nature of the income does not represent a risk of fraud in revenue recognition.

19. As a result, we have not incorporated specific work into our audit plan in this area over and above our standard audit procedures.

Other areas of audit focus

20. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. The areas of specific audit focus are:

- **Presentation and audit of financial statements.** To ensure the audit is completed in accordance with the statutory timescale, it is essential that a complete set of core schedules and a full unaudited set of consolidated accounts are received by the dates agreed. There is a risk that the audit is not completed in line with the timetable or that the financial statements are qualified due to an absence of appropriate working papers and delays in receiving sections of the accounts.
- **Accounting for service concession arrangements.** The 2023/24 Government Financial Reporting Manual (FReM) has changed the accounting treatment for indexation linked payments in liabilities for service concession arrangements. All organisations with these arrangements must remeasure if there is a change in future lease payments resulting from a change in an index / rate used to determine those payments. The financial statements should accurately reflect the impact of the revised IFRS16 accounting arrangements. There is a risk that the guidance is not applied correctly by the consolidated bodies resulting in a material misstatement.

Regularity

21. 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).

22. 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.

Group Consideration

23. As group auditors, we are required under ISA (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

24. The Scottish Government has a group which comprises bodies within the Scottish Government accounting boundary ([refer to footnote on page 3](#)). We have incorporated the identified significant risks of material misstatement and areas of audit focus in [Exhibit 2](#) and [paragraph 20](#).

25. The audits of the financial information of these components are performed by other auditors and as in previous years, we plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to establish our group audit opinion.

Wider Scope and Best Value

Introduction

26. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place.

27. In summary, the four wider scope areas are:

- **Financial management** – we will consider the arrangements to secure sound financial management, including the budgetary process, the strength of the financial management culture, levels of accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the Scottish Government is planning effectively to continue to deliver services and comment on financial sustainability in the medium (two to five years) to longer term (greater than five years).
- **Vision, leadership, and governance** – we will conclude on the clarity of plans in place to deliver the vision, strategy and priorities adopted by the Scottish Government. We also consider the effectiveness of the governance arrangements that support delivery.
- **Use of resources to improve outcomes** – we will consider how the Scottish Government demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope

28. Our planned work on the wider scope areas is risk based and proportionate. We will focus on:

- **Financial sustainability** - Financial pressures will intensify as the challenging economic conditions continue. Shorter term approaches may not be sufficient to support the delivery of public services in the longer term. There is a risk to the future financial sustainability of the Scottish Government as short-term financial pressures impact on the need for financial investment in longer term change.
- **Corporate transformation** – Work continues on the new ERP system to replace the legacy HR and financial ledger systems. The project has experienced increases in cost and delayed timelines. Until this new system is fully functioning, there is an ongoing risk that the current

systems are inefficient and present additional IT risks. There will also be additional risks associated with the system changeover.

- **Public service reform** – Scotland cannot afford the public services that are currently being delivered. There needs to be changes to the design and delivery of services to mitigate the risk that services are not financially sustainable and do not deliver the outcomes for the people of Scotland.
- **Workforce reform** - Given high workforce costs and current pay pressures, workforce reform is a core part of public service reform. There is a risk that without clear and structured workforce reform, public services cannot be delivered in a financially sustainable way. This needs to be considered alongside staff wellbeing as the Scottish Government recognises the strain being placed on staffing capability and capacity.
- **Scottish public sector consolidated financial information** – In 2016, the Scottish Government committed to producing a consolidated account to cover the devolved public sector in Scotland. The Scottish Government is exploring the most effective and efficient method to prepare this financial information whilst ensuring it is meaningful and transparent.
- **Achievement of priorities and outcomes** – There is a very complicated landscape of priorities which need to be reviewed, clarified and streamlined. Measurable targets should be identified to support the achievement of outcomes. Without the identification of measurable targets, there is a risk that outcomes are not achieved, or their impact cannot be measured.

29. In addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Duty of Best Value

30. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within the Scottish Government.

31. In addition, as part of our Best Value work this year, we will be carrying out a review of the Best Value characteristic “fairness and equality” set out in the SPFM within the Scottish Government.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

32. Audit reporting is the visible output for the annual audit. All audit outputs on matters of public interest, including those detailed in [Exhibit 3](#), will be published on our website: www.audit-scotland.gov.uk.

33. 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 Scottish Government to confirm factual accuracy.

34. The Auditor General for Scotland will provide an Independent Auditor's Report to the Scottish Parliament setting out his opinions on the annual report and accounts. We will provide the Scottish Government and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

35. [Exhibit 3](#) outlines the target dates for our audit outputs. We will issue our outputs in sufficient time to enable scrutiny by the Audit and Assurance Committee at the meeting date detailed below.

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Audit and Assurance Committee Date
Annual Audit Plan	31 March 2024	4 March 2024
Management letter	30 June 2024	3 June 2024
Independent Auditor's Report	31 October 2024*	To be confirmed
Annual Audit Report	31 October 2024*	To be confirmed
Section 22 report on the 2023/24 audit of the Scottish Government Consolidated Accounts	31 October 2024	To be confirmed

Audit Output	Target date	Audit and Assurance Committee Date
Assurance statement on the Whole of Government Account	To be confirmed	N/A

Source: Audit Scotland



* These dates represent the date for the independent auditor's report to be signed and the final annual audit report issued. We will provide copies to those charged with governance in advance of the appropriate Audit and Assurance committee to enable them to be considered.

Timetable

36. 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 timetable for the audit at [Exhibit 4](#).

37. We will continue to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with the Scottish Government over the course of the audit.

Exhibit 4 Annual report and accounts timetable

 Key stage	 Provisional Date
Receipt of the core schedules with complete working papers package	28 June 2024
Receipt of the consolidated performance report, accountability report including remuneration and staff report and governance statement	5 August 2024
Receipt of the unaudited consolidated annual report and accounts with complete working papers package	31 August 2024
Issue draft annual audit report for clearance discussion	Late September 2024
Final clearance meeting with the Chief Financial Officer	Late September 2024
Agreement of audited and unsigned consolidated annual report and accounts	Late September 2024
Issue of annual audit report, letter of representation and proposed independent auditor's report to those charged with governance	Late September 2024

**Key stage****Provisional Date**

Consideration of audited Consolidated Accounts and audit reporting by those charged with governance

To be confirmed - October 2024

Independent Auditor's Report signed

31 October 2024

Source: Audit Scotland

Audit fee

38. In determining the audit fee, we have taken account of the risk exposure of the Scottish Government and the planned management assurances in place. We have also reviewed the additional expectations that are placed on us, due to the changes in ISA 315 and the audit response required for the corporate transformation programme as it moves into implementation phase.

39. We have also considered the audit implications of the development of the Scottish public sector consolidated financial information and reflected this additional work in the 2023/24 audit fee. The agreed audit fee for 2023/24 is therefore £1,376,060.

40. In setting the fee for 2023/24, we have assumed that the Scottish Government 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.

Other matters

Internal audit

41. It is the responsibility of the Scottish Government to establish adequate internal audit arrangements. Internal audit is provided by the Scottish Government's Directorate of Internal Audit and Assurance (DIAA). We will review the internal audit plan and the results of internal audit's work.

42. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities. Areas of interest include:

- corporate systems assurance
- corporate transformation programme (including organisational readiness)
- settlement agreements
- EPC Transactions / Controls
- sponsorship of public bodies
- Ukraine resettlement invoicing process
- public service reform.

Independence and objectivity

43. As engagement lead, I am independent of the Scottish Government 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.

44. 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.

45. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of the Scottish Government.

Audit Quality

46. 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](#).

47. 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, and ensuring we have robust quality monitoring arrangements in place.
- 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.

48. 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.

49. 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.

50. 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.

Scottish Government

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

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