

King's and Lord Treasurer's Remembrancer

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for King's and Lord Treasurer's Remembrancer

March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of King's and Lord Treasurer's Remembrancer (KLTR). The main elements of our work include:

- an audit of the annual report and accounts and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report.
- consideration of arrangements in relation to wider scope areas.

Audit Appointment

2. We are pleased to be appointed as the external auditor of KLTR for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team in the [Appendix](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. We keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to KLTR through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee 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.

Respective responsibilities of the auditor and KLTR

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and KLTR. Key responsibilities are summarised below.

Auditor responsibilities

7. 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.

8. 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 arrangements within the audited body to manage performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

KLTR's responsibilities

9. KLTR is responsible for maintaining accounting records and preparing financial statements that properly present its receipts and payments.

10. 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

11. In line with ISA 240, in presenting this plan to the Audit and Risk Committee 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 committee 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.

Financial statements audit planning

Introduction

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

13. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

14. 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 that 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 2022/23 audit

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

Exhibit 1

2022/23 Materiality levels for KLTR

Materiality	Amount
Planning materiality – 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 2023 we have set our materiality at 2% of gross receipts based on the audited financial statements for 2021/22.	£230,000
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 should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£172,000

Reporting threshold (ie 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

16. 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 internal audit, attendance at committees and review of supporting information.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements which has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	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 International Standard on Auditing (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>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • 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. • Test journals during the year and at year-end and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of the arrangements in place for identifying and disclosing related party relationships and transactions in the financial statements.

Source: Audit Scotland

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

19. As set out in International Standard on Auditing (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.

20. 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.

21. 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.

22. 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.

Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement

23. Revised ISA 315 requires auditors to have a greater understanding of the IT systems bodies use to prepare their financial statements and the risks that arise from the use of these systems. Our work in this area is ongoing and we will consider the systems used by KLTR under service arrangements. If we identify any risks of material misstatement from this work, we will report these, along with our audit response and the results of any testing, in our annual audit report

Wider Scope and Best Value

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 gross expenditure and assets, 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 2022/23 audit. Consequently, our wider scope 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 our wider scope responsibilities is risk based and proportionate. We have not identified any local wider scope audit risks for the 2022/23 audit of KLTR. Progress on the outstanding recommendations identified in prior years will be followed-up with management during the course of the 2022/23 audit.

Duty of Best Value

27. [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 undertake a high-level review to confirm that such arrangements are in place within KLTR.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

28. Audit reporting is the visible output for the annual audit. This Annual Audit Plan 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.

29. 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 officers to confirm factual accuracy.

30. 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.

31. [Exhibit 3](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the target date of 31 October 2023 set out in Audit Scotland's planning guidance for 2022/23.

Exhibit 3

2020/21 Audit outputs



Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	31 March 2023 (agreed via correspondence)
Independent Auditor's Report	31 October 2023	9 August 2023
Annual Audit Report	31 October 2023	9 August 2023

Source: Audit Scotland

Timetable

32. 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 the 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
Consideration of the unaudited annual report and accounts by those charged with governance	24 May 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	29 May 2023
Latest date for final clearance meeting with the Head of Management Accounting and Planning	25 July 2023
Agreement of audited unsigned annual accounts Issue of Annual Audit Report including ISA260 report to those charged with governance	1 August 2023
Signed Independent Auditor's Report	9 August 2023

Source: Audit Scotland

33. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

34. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management 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 management and finance officers over the course of the audit.

Audit fee

35. In determining the audit fee, we have taken account of the risk exposure of KLTR and the planned management assurances in place. The agreed audit fee for 2022/23 is £4,270 (2021/22: £4,250).

36. In setting the fee for 2022/23 we have assumed that KLTR has effective governance arrangements in place and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable. The audit fee assumes there will be no major change in respect of the scope of the audit during the year. Where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

37. It is the responsibility of the KLTR to establish adequate internal audit arrangements. No internal audit work is planned for KLTR during 2022/23 and so we cannot place any formal reliance on internal audit work to support our opinion on the 2022/23 financial statements.

Independence and objectivity

38. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

39. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

40. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. The appointed auditor for KLTR is Maggie Bruce, Senior Audit Manager. We are not aware of any such relationships pertaining to the audit of KLTR.

Audit quality

41. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value, and can support public bodies to achieve their objectives. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

42. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

43. Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) has 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 appointed auditor.

Appendix. Your audit team

45. The senior team involved in the audit of KLTR have significant experience in public sector audit as detailed below.



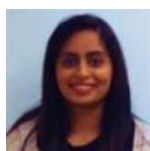
Maggie Bruce, Senior Audit Manager

Maggie Bruce has over 30 years of public sector audit experience and is a member of the Institute of Chartered Accountants in Scotland. She has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.



Zahrah Mahmood, Audit Manager

Zahrah is a member of the Institute of Chartered Accountants in Scotland and has over 10 years' experience in public sector audit in Audit Scotland. Zahrah will manage the team and work alongside the Senior Audit Manager to deliver the audit.



Maariyah Akhtar, Auditor

Maariyah is a member of the Institute of Chartered Accountants and has assisted in delivering a variety of local and central government audits since joining Audit Scotland. She will be the key point of contact for day-to-day audit work.

46. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Kings and Lord Treasurer's Remembrancer

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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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