

# Scottish Fiscal Commission

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Scottish Fiscal Commission

May 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

---

# Contents

---

|                               |          |
|-------------------------------|----------|
| <b>Risks and planned work</b> | <b>4</b> |
| Audit risks                   | 4        |
| Reporting arrangements        | 6        |
| Notional audit fee            | 7        |
| Responsibilities              | 7        |
| <br>                          |          |
| <b>Audit scope and timing</b> | <b>8</b> |
| Financial statements          | 8        |
| Materiality                   | 8        |
| Internal audit                | 10       |
| Independence and objectivity  | 10       |
| Quality control               | 10       |
| Adding Value                  | 10       |

---

# Risks and planned work

---

- 1.** This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#) (the Code), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.
- 2.** The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
- 3.** Paragraph 53 of the Code requires the full wider scope of audit to apply to all bodies unless the auditor judges that it is not appropriate due to the size, nature and risks of the body. As a result of our initial planning work and in recognition of the Scottish Fiscal Commission's size and value and nature of transactions being processed, we intend to adopt a small body audit approach to the financial statements audit.
- 4.** We do however recognise that, given the nature of the organisation, together with its risk and profile and stage in development, there are a number of wider dimension risks which in our view warrant specific wider scope work. These areas are detailed in Exhibit 1 below.
- 5.** Between 2014 and March 2017, the Scottish Fiscal Commission operated on a non-statutory basis with its role being to independently assess the Scottish Government's forecasts of devolved tax revenues. Since 1 April 2017, the Scottish Fiscal Commission has operated as a statutory body responsible for providing independent forecasts. This role as an independent fiscal institution is becoming increasingly important. As new powers are devolved, it will be responsible for forecasting about 50 per cent of the Scottish Government's budget and social security spending.
- 6.** The organisation currently comprises three Commissioners supported by about 26 staff. Governance structures are in place and it will publish its first annual report and accounts in summer 2018.

## Audit risks

- 7.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Scottish Fiscal Commission. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

**Exhibit 1**

## 2017/18 Key audit risks

| Audit Risk   | Source of assurance  | Planned audit work  |
|--|--|---|
| <b>Financial statement issues and risks</b>  |  |   |
| <p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>   | <p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>   | <p>Review of arrangements and policies for preventing and detecting fraud.</p> <p>Detailed testing of journal entries.</p> <p>Focused testing of payables and receivables.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year end to confirm expenditure and income have been accounted for in the correct financial year.</p> <p>Focused testing of accounting adjustments at the year-end.</p> |
| <p><b>2 Accounts preparation</b></p> <p>This is the first year that the Scottish Fiscal Commission will require to prepare financial statements. While support will be provided by the Scottish Government Accountancy Services team, there remains a risk around the general accounts preparation process.</p> <p>There is a risk that the financial statements are not prepared in line with the appropriate guidance or in accordance with the statutory timetable.</p> | <p>Assistance from Scottish Government Accountancy Services is being secured for the preparation of the annual accounts.</p> <p>Ongoing recruitment of officer who will be responsible for delivering the annual accounts.</p> | <p>Monitor ongoing recruitment.</p> <p>Ongoing discussions with management over accounts preparation.</p> <p>We shall provide a working paper requirements checklist together with links to appropriate guidance.</p>   |
| <b>Wider dimension risks</b>   |  |   |
| <p><b>3 Governance and transparency: development of governance arrangements</b></p> <p>The governance arrangements and general working relationships between commissioners and management continue to evolve.</p> <p>A number of key policies require to be finalised including the corporate risk register and business continuity plan. Budgetary control reports have</p>   | <p>Policies and underlying processes continue to develop and are largely based on Scottish Government policies.</p> <p>Internal Audit is undertaking a review of corporate governance arrangements.</p>                        | <p>Review progress on finalising key policies.</p> <p>Review Internal Audit work on corporate governance arrangements.</p> <p>Monitor the ongoing development of the organisation through to steady state.</p> <p>Review budget monitoring information.</p>   |

| Audit Risk  | Source of assurance  | Planned audit work  |
|---|--|---|
| <p>to date been provided as verbal updates to commissioners.</p> <p>Until the governance arrangements and related relationships are completed and embedded into the ongoing organisational activity, there is a risk that senior managers and commissioners are unable to effectively fulfil their respective roles.</p>  |  | <p>Review disclosures in the governance statement.</p> <p>Review medium term financial planning arrangements.</p>   |
| <p><b>4 Financial sustainability: Workforce planning</b></p> <p>As at March 2018, there were a number of unfilled vacancies across the organisation. In addition, several members of the senior leadership team were seconded from the Scottish Government.</p> <p>The Commission continues to develop and maintain its permanent staffing capacity going forward and as its responsibilities widen. As this work continues, there remains a risk that the Scottish Fiscal Commission has insufficient workforce capacity and capability to deliver its core and future expanding responsibilities.</p> | <p>Ongoing recruitment campaigns for key vacancies.</p> <p>Commissioners are developing succession plans for senior roles currently filled by secondees.</p> | <p>Review Governance Board papers.</p> <p>Monitor staff costs financial performance against budget.</p> <p>Discussions with Scottish Fiscal Commission over workforce planning.</p> |

## Reporting arrangements

**8.** 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](http://www.audit-scotland.gov.uk).

**9.** 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.

**10.** We will provide an independent auditor's report to the Scottish Fiscal Commission, the Auditor General for Scotland and the Scottish Parliament setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

| Audit Output                                       | Target date    | Audit and Risk Committee Date |
|--|----------------|-------------------------------|
| Annual Audit Plan                                  | 30 March 2018  | 18 April 2018                 |
| Annual Audit Report including ISA 260 requirements | 23 August 2018 | 30 August 2018                |
| Signed Independent Auditor's Report                | TBC            | -                             |

### Notional audit fee

**11.** The agreed notional audit fee for the 2017/18 audit of the Scottish Fiscal Commission is £26,500. In determining the audit fee we have taken account of the risk exposure of the Scottish Fiscal Commission, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 16 July 2018.

**12.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

### Responsibilities

#### Audit and Risk Committee and Accountable Officer

**13.** 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.

**14.** The audit of the financial statements does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

#### Appointed auditor

**15.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

**16.** Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**17.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the Scottish Fiscal Commission 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 Fiscal Commission 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.

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

- whether they give a true and fair view of the financial position of the Scottish Fiscal Commission and its expenditure for the year
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure
- whether the part of the Remuneration and Staff Report to be audited has been properly prepared
- whether the information given in the Performance Report is consistent with the financial statements
- whether the information given in the Governance Statement is consistent with the financial statements.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Materiality

**19.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.



20. We calculate materiality at different levels as described below. The calculated materiality values for the Scottish Fiscal Commission are set out in [Exhibit 3](#).

### Exhibit 3

#### Materiality values

| Materiality level  | Amount  |
|--|---------|
| <b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the budget for 2017/18.  | £17,000 |
| <b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 55% of planning materiality. | £10,000 |
| <b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.  | £1,000  |

Source: 2017-18 Spring Budget Revision to the Budget (Scotland) Act



21. We review and report on other information published with the financial statements including the performance and accountability reports which include the governance statement and the remuneration and staff report. Any issues identified will be reported to the Audit and Risk Committee.

#### Timetable

22. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates

### Exhibit 4

#### Financial statements timetable

|  Key stage |  Date |
|---|--|
| Latest submission date of unaudited annual accounts with complete working papers package      | 16 July 2018   |
| Latest date for final clearance meeting   | 10 August 2018   |
| Issue of Annual Audit Report including ISA 260 report to those charged with governance        | 23 August 2018   |
| Independent auditor's report signed   | TBC  |

## Internal audit

**23.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the Scottish Government Internal Audit Directorate (IAD).

### Adequacy of Internal Audit

**24.** Audit Scotland's Scottish Government audit team plans to carry out a review of the effectiveness of the internal audit function to ensure it operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. We plan to place reliance on that work.

### Areas of Internal Audit reliance

**25.** To support our wider dimension audit responsibilities we plan to consider Internal Audit's review of the corporate governance arrangements.

## Independence and objectivity

**26.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**27.** The engagement lead and appointed auditor for the Scottish Fiscal Commission is Mark Taylor, Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Scottish Fiscal Commission.

## Quality control

**28.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**29.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**30.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

## Adding Value

**31.** Through our audit work we aim to add value to the Scottish Fiscal Commission. We will do this by ensuring our Annual Audit Report provides a summary of the

audit work done in the year together with clear judgements and conclusions on how well the Scottish Fiscal Commission has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Scottish Fiscal Commission

## Annual Audit Plan 2017/18

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500