

# Scottish Government

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

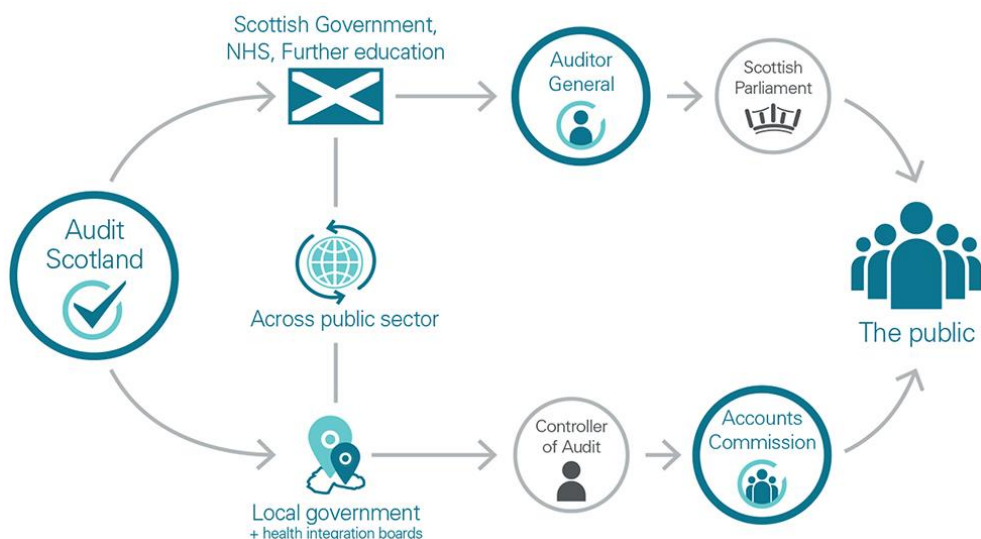
Prepared for the Scottish Government

March 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.

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# Risks and planned work

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1. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.
2. The Scottish Government's financial statements report the financial outturn compared to spending plans of Scottish Ministers as set out in the annual budget approved by the Scottish Parliament in the Budget (Scotland) Act.
3. This annual audit plan contains an overview of the planned scope and timing of our audit of the Scottish Government and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies both our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.

## Audit dimensions

4. The wider dimension scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability. The four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

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### Exhibit 1

#### Audit dimensions



Source: Code of Audit Practice

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### Financial sustainability

5. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will comment on the Scottish Government's ability to demonstrate its financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

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

### Financial management

6. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the Scottish Government has arrangements in place to ensure systems of internal control are operating effectively
- whether the Scottish Government can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the Scottish Government has assured itself that its financial capacity and skills are appropriate
- whether the Scottish Government has established appropriate and effective arrangements for the prevention and detection of fraud and corruption
- how the Scottish Government is progressing the requirements of the National Fraud Initiative (NFI).

### Governance and transparency

7. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the Scottish Government can demonstrate that its governance arrangements are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision – making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### Value for money

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

- the Scottish Government can provide evidence that it is demonstrating value for money in the use of its resources
- the Scottish Government can demonstrate that there is a clear link between money spent, output and outcomes delivered

- the Scottish Government can demonstrate that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

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

## Audit risks

10. 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 the Scottish Government. We have categorised these risks into financial risks and wider dimension risks. [Exhibit 2](#) sets out the key audit risks, the sources of assurance which may mitigate the audit risk, and the audit work we plan to do during the year to allow us to form a judgement on these risks.

## Exhibit 2

### 2017/18 Key audit risks

| Audit Risk  | Source of assurance  | Planned audit work  |
|---|--|---|
| <b>Financial statement issues and risks</b>   |  |   |
| <p><b>1 European Structural Funds programmes 2014-20</b></p> <p>We are aware that both the European Structural Fund and European Regional Development Fund 2014-20 programmes have been interrupted by the European Commission (EC). This means that the EC is not reimbursing the Scottish Government until concerns raised in the interruption letter are resolved.</p> <p>These interruptions are an early indication that the control environment is not working as it should and may lead to payment errors in the future. It also affects balances and disclosures in relation to the Scottish Government's Statement of Financial Position and there is a risk that they may be misstated.</p> | <p>ESF programme board in place to oversee all aspects of ESF delivery.</p> <p>Internal Audit in its role as the Audit Authority for the European Commission.</p> <p>Audits carried out by the European Commission.</p>      | <p>Follow up of control weaknesses identified during our audit of the 2016/17 financial statements relating to reconciliation of the European payment system to the general ledger.</p> <p>Substantive testing of balances and disclosures in the financial statements.</p> <p>Consider placing reliance on Internal Audit's work as the Audit Authority (external audit) appointed by the European Commission.</p> |
| <p><b>2 Common Agricultural Policy (CAP) payments</b></p> <p>Common Agricultural Policy payments are administered by the Scottish Government. In 2017/18 the Scottish Government is expected to make payments and then reclaim</p>  | <p>Audit Scotland is the certification body for European Agricultural Funds.</p> <p>Procedures in place for identifying potential and ongoing provisions and contingent liabilities.</p> <p>An impairment review will be</p> | <p>Review the disclosure of contingent liabilities, guarantees, indemnities and letters of comfort in the consolidated accounts for completeness and reasonableness.</p> <p>Engage with auditors of the</p>   |

| Audit Risk   | Source of assurance  | Planned audit work  |
|--|--|---|
| <p>approximately £540m from the European Union.</p> <p>Failure by the Scottish Government to meet deadlines or adhere with regulations can result in penalties.</p> <p>There are a number of balances and disclosures across the financial statements relating to CAP. There is an audit risk that there may be material misstatements relating to these.</p>  | <p>undertaken by the Scottish Government in 2017/18.</p> <p>Established capital accounting procedures.</p> <p>Well established budget monitoring and financial reporting procedures.</p>   | <p>European Agricultural Funds.</p> <p>Review Scottish Government impairment review and associated accounting entries.</p> <p>Substantive testing of CAP futures system expenditure to determine if correctly classified.</p> <p>Review of arrangements for issuing and recovering CAP loans.</p> <p>Substantive testing of a sample of CAP loans.</p>  |
| <p><b>3 Estimation and judgements</b></p> <p>There are significant degrees of management estimation in the measurement, valuation and disclosures of a number of material account areas including student loans, contingent liabilities, financial guarantees and provisions. This estimation and judgement creates a risk that material areas of the accounts are misstated.</p>                            | <p>Management exercise judgements in line with accounting standards.</p> <p>Non-statutory guarantees or indemnities in excess of £1 million require approval of the Scottish Parliament.</p> <p>A record of all contingent liabilities, guarantees, indemnities and letters of comfort is maintained, updated and reviewed by management.</p> <p>Evaluation of guarantees involves financial modelling to simulate sources of uncertainty.</p> | <p>Further review of the student loans model (assumptions and application).</p> <p>Focused substantive testing.</p> <p>Review the identification of and record of contingent liabilities, guarantees, indemnities and letters of comfort.</p> <p>Test assumptions in contingent liability financial modelling.</p> <p>Review the disclosure of student loans, contingent liabilities, guarantees etc.</p> |
| <p><b>4 Risk of management override of controls</b></p> <p>Notwithstanding the existence of a control environment, 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>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Review of internal audit reports.</p> <p>Consideration of the results of controls testing.</p>  |
| <p><b>5 Risk of fraud over expenditure</b></p> <p>ISA 240 presumes a risk of fraud in regard to revenue recognition in the financial statements in any audit. Practice Note 10 extends this to</p>   | <p>The nature of arrangements means that the majority of Scottish Government expenditure is providing funding to other public bodies.</p> <p>Sound budgetary control and</p>   | <p>Perform detailed testing of significant transactions, particularly around the financial year-end.</p> <p>Carry out analytical procedures.</p> <p>Monitor budgetary process</p>   |

| Audit Risk  | Source of assurance  | Planned audit work  |
|---|--|---|
| include expenditure recognition in some public sector bodies. Given the nature of expenditure in relation to the Scottish Government there is a risk of fraud over expenditure.   | monitoring arrangements.<br>Internal audit reviews.<br>Oversight by the Corporate Board.   | and reporting.<br>Consider internal audit findings.   |
| <p><b>6 National Fraud Initiative (NFI)</b></p> <p>In our 2016/17 Annual Audit Report we highlighted that, as with the previous NFI exercise, good progress had been made in the investigation of accounts payable matches but there was slower progress in investigating recommended payroll matches due to resourcing pressures. In addition, no progress has been made on investigating the procurement matches. There is a risk that if NFI matches are not effectively followed up fraud or error could remain undetected.</p> | <p>Scottish Government's ongoing participation and engagement with the NFI process.</p> <p>Scottish Government engagement on policy and process with the Cabinet Office and Audit Scotland.</p>  | <p>Completion of 2017/18 NFI questionnaire.</p>   |
| <b>Wider dimension risks</b>  |  |   |
| <b>Financial management</b>   |  |   |
| <p><b>7 Workforce capacity and capability</b></p> <p>Financial devolution under the 2012 and 2016 Scotland Acts is fundamentally changing the shape of Scottish public finances. There is a risk that the Scottish Government does not have the capacity and capability to deliver these changes alongside delivering its continuing responsibilities and preparing for the implications of the UK's withdrawal from the European Union.</p>  | <p>People plan is in place.</p> <p>Planning processes are focused around capacity and capability.</p> <p>Succession planning, scenario planning and improvements to management information.</p>  | <p>Consideration of performance audit report on the implementation of the Scotland Acts.</p> <p>Further consideration on impact of social security agency on core finance functions.</p> <p>Consideration of actions to address recommendations of internal review of finance function.</p>   |
| <p><b>8 Supporting economic activity</b></p> <p>The Scottish Government's risk environment and appetite are changing, as seen through their increasing use of financial guarantees to support economic development. This increasing involvement in guarantees brings new risk exposure to the Scottish Government.</p> <p>In November 2017 the Scottish Government provided a commercial loan facility of £15</p>   | <p>A 'live' controlled record of all contingent liabilities, guarantees, indemnities and letters of comfort is maintained and updated when information becomes available that affects the size or nature of existing liabilities. The record is reviewed by management regularly.</p> <p>Non-statutory guarantees or indemnities in excess of £1 million require the approval of</p> | <p>Review the record of contingent liabilities, guarantees, indemnities and letters of comfort.</p> <p>Substantively test disclosures of contingent liabilities, guarantees, indemnities and letters of comfort in the consolidated accounts for completeness.</p> <p>Assess due diligence and decision analysis carried out by the Scottish Government</p> |



| Audit Risk   | Source of assurance   | Planned audit work  |
|--|---|---|
| <p>million to Burntisland Fabrications Limited (BiFab) in order to help it unlock additional funding and continue to operate.</p> <p>The increasing use of financial guarantees to support economic activity presents an audit risk that existing measuring and monitoring arrangements may not be sufficient to mitigate these new risks faced by the Scottish Government.</p>  | <p>the Scottish Parliament.</p>   | <p>for the loan to BiFab.</p> <p>Review scenario planning in this area as the risk exposure increases as more support is offered.</p> <p>Review process for selecting areas of intervention.</p>  |
| <p><b>9 Financial management and reporting</b></p> <p>We have previously reported a number of areas where financial management and reporting arrangements could be improved. The Budget Process Review Group's recommendations provide a real opportunity for the Scottish Government to strengthen its financial reporting, and support Parliamentary and public scrutiny.</p> <p>To strengthen reporting, the Scottish Government has plans to:</p> <ul style="list-style-type: none"> <li>• produce a shadow public sector consolidated account for Scotland in Spring 2018</li> <li>• develop a medium-term financial strategy covering the next five years</li> <li>• finalise policies for borrowing and reserves.</li> </ul> <p>There is a risk that the financial management and reporting arrangements are not adequate for the new tax raising and spending environment in Scotland.</p> | <p>Commitment from Permanent Secretary that this reporting will be developed.</p> <p>Timeline set out for developing financial reporting.</p> | <p>Engage with performance audit work on <i>Managing the implementation of the Scotland Acts</i> and consider the findings from the upcoming national report.</p> <p>Engage with the Scottish Government over its plans to produce the shadow consolidated account.</p> <p>Review policies and principles for borrowing and reserves.</p> <p>Review the medium term financial strategy.</p> <p>Review of memorandums of understanding with HM Treasury.</p> <p>Review of a capital borrowing strategy for 2017/18 once this has been finalised.</p> |
| <p><b>10 Debt management</b></p> <p>As part of our 2016/17 Annual Audit Report, we identified a number of areas where debt management arrangements could be improved across the Scottish Government.</p> <p>This included identifying balances being written off substantially later than would be</p>   | <p>Review of debt management arrangements is being undertaken.</p>  | <p>Assess the Scottish Government's review of debt management and progress against any recommendations.</p> <p>Review year end receivables balances as part of final accounts testing.</p>  |

| Audit Risk  | Source of assurance   | Planned audit work   |
|---|---|--|
| <p>expected and receipts not being allocated to debtor accounts. We further identified issues relating to recovery of debts for European Structural Funds.</p>  |   |  |
| <b>Governance and transparency</b>  |   |  |
| <p><b>11 Governance arrangements</b></p> <p>The Scottish Government introduced new governance arrangements in October 2016 with further changes at Director General level in June 2017.</p> <p>Good governance is important for longer term decision-making, efficient use of resources and accountability for stewardship of those resources.</p> <p>We will review the effectiveness of the revised governance arrangements and assess whether they provide effective oversight, scrutiny and management of resources to achieve intended outcomes and support the Principal Accountable Officer in discharging her responsibilities.</p>   | <p>Corporate governance manual.</p> <p>Action plan to address recommendations of review has been prepared and is in the process of being implemented.</p>                           | <p>Review of effectiveness of governance arrangements.</p> <p>Engage with Internal Audit.</p> <p>Engage with NXDs including chair of SGAAC.</p> <p>Attendance at SGAAC and DG assurance meetings.</p> <p>Review of the Governance Review undertaken by the Director of Internal Audit and the Crown Agent, reported to SGAAC, December 2017.</p>   |
| <p><b>12 Compliance with wider laws and regulations</b></p> <p>We are required to consider laws and regulations which do not have a direct impact on the financial statements. For example:</p> <ul style="list-style-type: none"> <li>• Freedom of Information (FOI)</li> <li>• Whistleblowing Policies</li> <li>• Data Protection</li> </ul> <p>The Scottish Government does not consistently meet the statutory 20 day target for responding to FOI requests. There is a risk to the audit that non-compliance with laws and regulations has a material effect on the application of governance arrangements in the organisation and on disclosures within the financial statements, such as the governance statement, which influence a reader's understanding.</p> | <p>Established whistleblowing policy in place.</p> <p>FOI policies in place.</p> <p>Interim targets agreed with information commissioner.</p> <p>FOI improvement plan in place.</p> | <p>Review of application of whistleblowing policies and procedures.</p> <p>Assess disclosures relating to FOI in the governance statement.</p> <p>Review of progress against interim targets.</p> <p>Review of reporting of progress against actions in FOI improvement plan established by the Information Commissioner</p> <p>Reviewing arrangements for changes to Data Protection.</p> |

| Audit Risk  | Source of assurance   | Planned audit work   |
|---|---|--|
| <p><b>13 Procurement</b></p> <p>Procurement of goods and services plays a key role in delivering the Programme for Government. In 2016/17 bodies within the consolidated accounts spent approximately £3.5 billion outwith the public sector. Of this approximately £241 million relates to Scottish Government Core.</p> <p>EU legislation requires the Scottish Government to ensure that procurement of goods and services is undertaken fairly and in line with applicable laws, regulations and policies. In addition, the selection and management of suppliers is key to delivering on policy commitments.</p> <p>There is a risk that proper procedures are not followed.</p> | <p>Established Procurement team.</p> <p>Engagement with the State Aid Unit and Procurement by policy teams.</p> <p>Scottish Government Procurement Strategy 2017-19.</p> <p>European Regulations require process of tendering and assessments of bids to be transparent and fair.</p> | <p>Review processes and procedures that allow the Scottish Government to manage supplier risk.</p> <p>For a sample of contracts, review how decisions are made about what supplier to use.</p> |

## Reporting arrangements

**11.** Audit reporting is the visible output for the annual audit. All annual audit plans 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](http://www.audit-scotland.gov.uk).

**12.** 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.

**13.** The Auditor General will provide an independent auditor's report to the Scottish Parliament. We will provide the Principal Accounting 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.

**14.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December. The Scottish Government's target is to present the audited financial statements to Parliament by the end of September.

## Exhibit 3

### 2017/18 Audit outputs

| Audit Output  | Target date       | SG Assurance & Audit Committee Date |
|---|-------------------|-------------------------------------|
| Overview of internal audit report   | 1 June 2018       | 28 June 2018                        |
| Management Report   | 1 June 2018       | 28 June 2018                        |
| Annual Audit Report   | 24 September 2018 | 24 September 2018                   |
| Independent Auditor's Report  | 25 September 2018 | N/A                                 |
| Public report on the 2017/18 audit of the Scottish Government Consolidated Accounts | 28 September 2018 | N/A                                 |
| Assurance statement on Whole of Government Accounts                                 | 28 September 2018 | N/A                                 |

### Audit fee

**15.** The proposed audit fee for the 2017/18 audit, including our work on Whole of Government Accounts is £1,076,590 (2016/17 £1,063,750). In determining the audit fee we have taken account of the risk exposure of the Scottish Government, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the core schedules and working papers on 8 June 2018 and consolidated accounts and working papers on 28 July 2018.

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

### Responsibilities

#### Assurance and Audit Committee and Principal Accountable Officer

**17.** 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.

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

#### Appointed auditor

**19.** 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.

# Audit scope and timing

## Financial statements

**20.** 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 Government and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Scottish Government will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**21.** 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 audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

## Materiality

**22.** 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.

**23.** We calculate materiality at different levels as described below. The calculated materiality values for the Scottish Government are set out in [Exhibit 4](#).



## Exhibit 4

### Materiality values

| Materiality level   | Amount          |
|---|-----------------|
| <p><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 one per cent of gross expenditure for the year ended 31 March 2017 based on the latest audited accounts.</p>   | £410.35 million |
| <p><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 20 per cent of planning materiality.</p> <p>However, given the specific nature of the Scottish Government audit and the lower materiality levels in respect of individual errors identified, we apply judgement and consider the nature and circumstances of each error identified. Therefore, in practice, we are working to much lower materiality levels and any individual error in the range £10 million to £20 million and above may be material depending on its nature and impact.</p> | £82.07 million  |
| <p><b>Reporting threshold</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 one per cent of planning materiality but capped at £0.1 million.</p>  | £0.1 million    |



24. We review and report on other information published with the financial statements including the performance report, governance statement and the remuneration and staff report. Any issue identified will be reported to the Scottish Government Assurance and Audit Committee.

### Timetable

25. . An agreed timetable is included at [Exhibit 5](#) which takes account of submission requirements and planned SGAAC dates:

## Exhibit 5

### Financial statements timetable

|  Key stage  |  Date |
|--|--|
| Latest submission date of core schedules with complete working papers package  | 8 June 2018  |
| Latest submission date of unaudited consolidated financial statements with complete working papers package                                 | 28 July 2018   |
| Latest date for final clearance meeting with Chief Financial officer   | 7 September 2018   |
| Agreement of audited unsigned financial statements; issue of Annual Audit Report including ISA 260 report to those charged with governance | 17 September 2018  |
| Independent auditor's report signed  | 25 September 2018  |

## Internal audit

**26.** 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) overseen by the Director of Internal Audit.

### Adequacy of Internal Audit

**27.** We carry out an annual assessment of internal audit to determine the extent to which we can place reliance on its work. Our review for 2017/18 is ongoing and we intend to present our Overview of Internal Audit Report to the SGAAC meeting on 26 June 2018. Based on a review of Internal Audit plans, we intend to place reliance on IA work as outlined below.

### Areas of Internal Audit reliance

**28.** To support our audit opinion on the financial statements and our wider dimension audit responsibilities we plan to consider the following planned internal audit reviews:

- DG Strategy and Operations – payroll
- DG Strategy and Operations – travel and subsistence
- DG Economy – EU funding reviews
- Review of effectiveness of governance arrangements
- Review of Scottish Government preparedness for new General Data Protection Regulations (GDPR).

## Independence and objectivity

**29.** Auditors appointed by Audit Scotland 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.

**30.** The engagement lead for Scottish Government is Stephen Boyle, 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 Government.

## Quality control

**31.** 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.

**32.** 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 external quality reviews.

**33.** 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**

**34.** Through our audit work we aim to add value. 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 Government 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 Government

## Annual Audit Plan 2017/18

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