

Creative Scotland & Creative Scotland National Lottery Distribution Fund

Annual Audit Plan 2018/19

 AUDIT SCOTLAND

Prepared for Creative Scotland & Creative Scotland National Lottery Distribution Fund

February 2019

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

Risks and planned work	4
Audit scope and timing	8

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](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


Adding value


3. We aim to add value to Creative Scotland & Creative Scotland National Lottery Distribution Fund through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend Creative Scotland & Creative Scotland National Lottery Distribution Fund to promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. 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 Creative Scotland & Creative Scotland National Lottery Distribution Fund. 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 2018/19 Key audit risks

	Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks for both CS & CSNLDF			
1	<p>Risk of management override of controls</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 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>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Detailed testing of grant income and expenditure to ensure this has been accounted for appropriately. • Review of the apportionment of costs and accounting estimates for reasonableness. • Focussed testing of accruals and prepayments. • Evaluation of significant transactions that are

	Audit Risk	Source of assurance	Planned audit work
			outside the normal course of business.
2	<p>Risk of fraud over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. CS & CSNLDF incur significant expenditure on the award of grants and we therefore recognise this as a financial statements risk.</p>	<p>Controls in place to ensure grants are awarded and paid in line with internal processes and the grant contract.</p>	<ul style="list-style-type: none"> • Walk through of the grant management system. • Detailed testing of grant expenditure to ensure all conditions have been met to recognise the expense in the financial statements.
3	<p>Estimation and judgements</p> <p>Almost all expenditure incurred by CS & CSNLDF relates to grant funding awarded. There is a degree of subjectivity in the measurement of grants awarded and we recognise that this subjectivity represents a risk of misstatement in the financial statements.</p>	<p>Controls in place to ensure grants are awarded and paid in line with internal processes and the grant contract.</p>	<ul style="list-style-type: none"> • Detailed testing of grant expenditure to ensure it has been accounted for correctly. • Focused testing of year end estimates and assumptions.
4	<p>Performance Reporting</p> <p>The Financial Reporting Manual requires audited bodies to disclose within the statement of accounts information on its key performance measures and how it measures performance against those measures.</p> <p>The prior year accounts did not include any details of performance against key performance measures.</p> <p>There is a risk that the annual accounts do not comply with the reporting framework.</p>	<p>Full reporting on outturns against the performance indicators was previously reported in the Annual Review.</p> <p>A paper will be presented to the Audit and Risk Committee to discuss options to enhance performance reporting in the statement of accounts in line with the FReM.</p>	<ul style="list-style-type: none"> • Review the Performance Report to ensure compliance with the FReM.

Financial Statements Issues and Risks for CSNLDF Only

5	<p>Risk of fraud over income</p> <p>Creative Scotland & Creative Scotland National Lottery Distribution Fund receives approximately £0.6 million of income from sources other than the National Lottery. The extent and timing of receipt of this income means that, in accordance with ISA240, there is an inherent risk of fraud or error that requires an audit response.</p>	<p>Creative Scotland partners with other funders to deliver certain projects. Controls are in place to ensure income is recorded in the correct financial period.</p>	<ul style="list-style-type: none"> • Substantive testing across different income streams focussing on areas of greatest risk.
---	---	---	--

	Audit Risk	Source of assurance	Planned audit work
Wider dimension issues and risks			
6	<p>Financial sustainability</p> <p>The Scottish Government increased the Grant in Aid budget awarded to Creative Scotland in 2018/19 to offset the drop in Lottery funding.</p> <p>There is a risk that this may not be sustainable and Creative Scotland should ensure it has appropriate budget monitoring and longer term planning arrangements in place to address this challenge.</p>	<p>A detailed financial plan is in place to ensure our grant programmes match income levels over five years.</p> <p>Management accounts are presented to SLT meetings to ensure that performance and expected outturn for the current financial year is understood.</p>	<ul style="list-style-type: none"> • Regular review of CS & CSNLDF Management Accounts to assess performance and assumptions. • Review of longer term financial plans.
7	<p>Value for money</p> <p>Performance indicators are measured against prior year baseline outcomes rather than forward looking targets. There is a risk that without setting targets Creative Scotland cannot fully measure the impact it has in delivering ambitions and priorities.</p>	<p>Performance indicators are reviewed regularly and agreed with Scottish Ministers in accordance with Creative Scotland Framework Agreement with the Scottish Government</p>	<ul style="list-style-type: none"> • We will review performance reports prepared for the Board to assess progress being made against core objectives and to determine the extent to which targets are set and used to monitor progress.

Source: Audit Scotland

Reporting arrangements

5. 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.

6. 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.

7. We will provide an independent auditor's report to Creative Scotland, Scottish Parliament and the Auditor General for Scotland 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 during the audit.

8. 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.

Exhibit 2

2018/19 Audit outputs

Audit Output	Target date	Audit and Risk Committee / Board Date
Annual Audit Plan	31 March 2019	7 March 2019
Annual Audit Report	31 October 2019	29 September 2019
Independent Auditor's Report	31 October 2019	29 September 2019

Source: Audit Scotland

Audit fee

9. The agreed audit fee for the 2018/19 audit of Creative Scotland is £45,190 (17/18 £44,470) and £23,610 for Creative Scotland National Lottery Distribution Fund (17/18 £22,970). In determining the audit fee we have taken account of the risk exposure of Creative Scotland & Creative Scotland National Lottery Distribution Fund, 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 annual accounts, with a complete working papers package on 1 July 2019.

10. 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 out with our planned audit activity.

Responsibilities

Audit & Risk Committee and Accountable Officer

11. 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.

12. The audit of the annual report and accounts does not relieve management or the Audit & Risk Committee as those charged with governance, of their responsibilities.

Appointed auditor

13. 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.

14. 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 its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual report and accounts

15. The annual report and accounts, which include the financial statements, will be the foundation and source for most 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 Creative Scotland & Creative Scotland National Lottery Distribution Fund 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 Creative Scotland & Creative Scotland National Lottery Distribution Fund 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.

16. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the Public Services Reform (Scotland) Act 2010/ National Lottery etc. Act 1993 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM; and
- have been prepared in accordance with the requirements of the Public Services Reform (Scotland) Act 2010/National Lottery etc. Act 1993 and directions made thereunder by the Scottish Ministers.

Other information in the annual report and accounts

17. We also review and report on other information published within the annual report and accounts including the performance report, annual governance statement and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

18. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

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



characteristics



responsibilities



principal activities



risks



governance arrangements

uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

20. We calculate materiality at different levels as described below. The calculated materiality values for Creative Scotland & Creative Scotland National Lottery Distribution Fund are set out in [Exhibit 3](#).

Exhibit 3 Materiality values



Materiality	CS	CSNLDF
Planning materiality – 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 2019 based on the month 6 management accounts year end forecast.	£0.627 million	£0.277 million
Performance materiality – 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 60% of planning materiality.	£0.376 million	£0.166 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£31,000	£14,000

Source: Audit Scotland

Timetable

21. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	1 July 2019
Latest date for final clearance meeting with Director of Finance	8 August 2019
Issue of Letter of Representation and proposed independent auditor's report	15 August 2019
Agreement of audited unsigned annual accounts	15 August 2019
Issue of Annual Audit Report to those charged with governance	15 August 2019
Independent auditor's report signed	1 October 2019

Internal audit

22. Internal audit is provided by Henderson Loggie. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). The scope of our work assesses aspects of PSIAS compliance, but it does not equate to full EQA review of internal audit. ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function’s organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

23. Based on our review of internal audit we have concluded that the service operates in accordance with Public Service Internal Audit Standards (PSIAS) and that appropriate documentation and reporting procedures are evident.

Using the work of internal audit

24. 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 to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

25. To support our audit opinion on the financial statements we plan to take cognisance of the internal audit review of financial systems and the grant management system.

Audit dimensions

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



27. Our audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

Financial sustainability

28. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's 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 effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

29. 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 Creative Scotland & Creative Scotland National Lottery Distribution Fund has arrangements in place to ensure systems of internal control are operating effectively
- whether Creative Scotland & Creative Scotland National Lottery Distribution Fund can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how Creative Scotland & Creative Scotland National Lottery Distribution Fund has assured itself that its financial capacity and skills are appropriate
- whether Creative Scotland & Creative Scotland National Lottery Distribution Fund has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

30. 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 Creative Scotland & Creative Scotland National Lottery Distribution Fund can demonstrate that the governance arrangements in place 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

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

- Creative Scotland & Creative Scotland National Lottery Distribution Fund can provide evidence that it is demonstrating value for money in the use of its resources.

- Creative Scotland & Creative Scotland National Lottery Distribution Fund can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- Creative Scotland & Creative Scotland National Lottery Distribution Fund can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

Independence and objectivity

32. 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 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

33. The engagement lead (i.e. appointed auditor) for Creative Scotland & Creative Scotland National Lottery Distribution Fund is Liz Maconachie, Senior Audit Manager. Auditing and ethical standards require the appointed auditor Liz Maconachie 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 Creative Scotland & Creative Scotland National Lottery Distribution Fund.

Quality control

34. 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.

35. 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

36. 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.

Creative Scotland & Creative Scotland National Lottery Distribution Fund

Annual Audit Plan 2018/19

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

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



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk