

Scottish Fiscal Commission

2018/19 Annual Audit Report



 AUDIT SCOTLAND

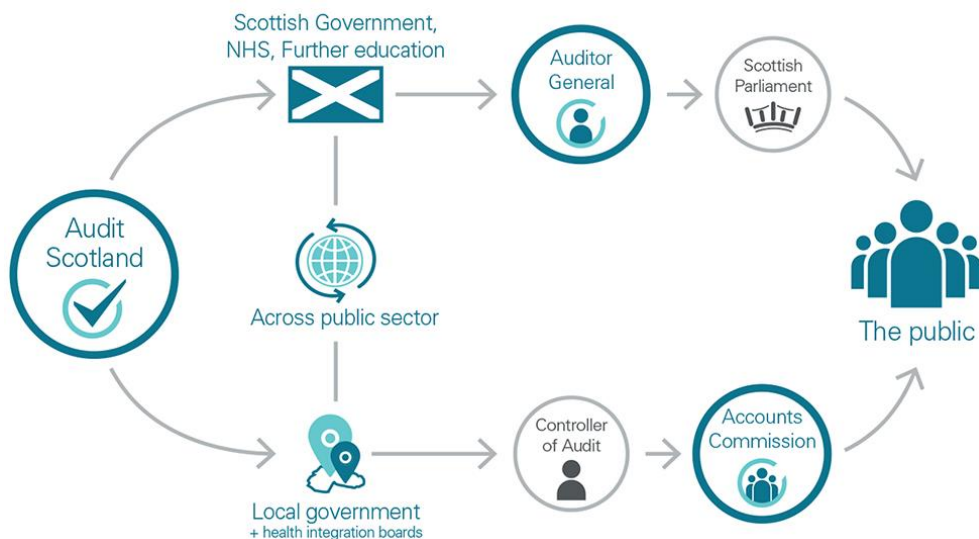
Prepared for the Scottish Fiscal Commission and the Auditor General for Scotland

12 September 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.

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Key messages

2018/19 annual report and accounts

- 1** The financial statements of the Scottish Fiscal Commission give a true and fair view of the financial position and its net expenditure for the year.
- 2** The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 3** The other information in the annual report and accounts is consistent with the financial statements and prepared in accordance with legal requirements.

Financial management, sustainability and governance

- 4** The Scottish Fiscal Commission remained within its budget, reporting an underspend of £32,000 in 2018/19.
- 5** Budget monitoring procedures and some aspects of internal control should be further improved. Regular, timeous and accurate reports should be prepared and provided to management.
- 6** We have no significant concerns about the overall financial position of the Scottish Fiscal Commission.
- 7** The information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

Introduction

1. This report summarises the findings from our 2018/19 audit of the Scottish Fiscal Commission.

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2019 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of the Scottish Fiscal Commission’s annual report and accounts
- consideration of aspects of financial sustainability, financial management and governance.

3. Our standard audits encompass the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

4. The [Code of Audit Practice 2016](#) (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. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.

5. As advised in our 2018/19 Annual Audit Plan, in recognition of the Scottish Fiscal Commission's volume of transactions and their lack of complexity, we adopted a small body audit approach to the financial statements audit.

6. We also recognised that, given the nature of the Scottish Fiscal Commission, together with its risk and profile and stage in development, that there were some wider dimension risks in relation to financial management which in our view warranted specific wider scope audit work.

Adding value through the audit

7. We add value to the Scottish Fiscal Commission through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

8. In so doing, we aim to help the Scottish Fiscal Commission promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

9. The Scottish Fiscal Commission has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The Scottish Fiscal Commission is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

10. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK.

11. As public-sector auditors we give independent opinions on the annual report and accounts and conclude on securing financial sustainability and appropriateness of the governance statement disclosures. In doing this, we aim to support improvement and accountability.

12. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

13. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

14. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £27,270 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

15. This report is addressed to both the Scottish Fiscal Commission and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

16. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual report and accounts



Main judgements

The financial statements of the Scottish Fiscal Commission give a true and fair view of the financial position and its net expenditure for the year.

The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

The other information in the annual report and accounts is consistent with the financial statements and prepared in accordance with legal requirements.

Audit opinions on the annual report and accounts

17. The Audit and Risk Committee recommended to the Governance Board that the Chief Executive should approve the annual report and accounts for the year ended 31 March 2019 on 10 September 2019. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance issued by Scottish Ministers
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

18. We have nothing to report in respect of misstatements in information other than that reported below.

Submission of annual report and accounts for audit

19. We received the unaudited annual report and accounts on 5 July 2019 in line with our agreed audit timetable.

20. The working papers provided with the unaudited financial statements were of a reasonable standard. We have discussed with management a number of suggested enhancements to the working papers which are outlined below at [Exhibit 3](#). Scottish Fiscal Commission staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risk of material misstatement

21. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

22. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

23. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

24. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

25. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and updated these to reflect the reported outturn at 31 March 2019 as summarised in [Exhibit 2](#).

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£33,000
Performance materiality	£10,000
Reporting threshold	£1,000

Source: Scottish Fiscal Commission Annual Audit Plan 2018/19

Significant findings from the audit in accordance with ISA 260

26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.



27. The significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Qualitative aspects of the audit

28. We have no significant findings to report around the qualitative aspects of the Scottish Fiscal Commission's 2018/19 accounting practices. These qualitative aspects include accounting policies, accounting estimates and judgements.

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Audit evidence</p> <p>There was a delay in receiving some audit evidence to substantiate the figures in the annual accounts.</p> <p>We have discussed with management a number of suggested enhancements to the working papers, for example:</p> <ul style="list-style-type: none"> we issued a financial statements working papers checklist to management in March 2019. Not all of the working papers listed on the checklist were available at the commencement of the audit the agreement and cross referencing of supporting documents to the trial balance and accounts any working papers prepared by the Scottish Government's Accountancy Services should be reviewed and evidenced prior to the audit commencing. 	<p>Management have agreed to review their processes and procedures going forward. The Scottish Fiscal Commission should ensure that all the working papers are available at the start of the audit.</p> <p> Recommendation 1 (refer Appendix 1, action plan)</p>
<p>2. Financial management</p> <p>We recommended in 2017/18 that budgetary processes should be reviewed. While some progress has been made through the introduction of procedural notes, our audit identified a number of issues which could have been identified earlier had more effective budgetary control arrangements been in place. These issues impacted on the financial statements audit and included:</p> <ul style="list-style-type: none"> adjustments to opening balances, for example reversal of 2017/18 holiday pay accrual, fees and expenses salary overpayments made to former members of staff in July 2018 and January 2019 not recognised as an overpayment until July/August 2019. 	<p>Management have agreed an action plan with Internal Audit to address a number of the weaknesses.</p> <p>All matters have been addressed as part of the year end audit.</p> <p> Recommendation 2 (refer Appendix 1, action plan)</p>

How we evaluate misstatements

29. There were no material adjustments to the unaudited annual report and accounts arising from our audit. Our testing identified three misstatements that were above our reporting threshold, all of which were corrected in the audited financial statements. Corrected misstatements totalled £7,000. Net operating cost increased by this amount, while total taxpayers' equity increased by £3,000. The difference reflects an adjustment to notional costs.

30. Our audit also identified expenditure of £1,300 which should have been accrued into 2017/18. Expenditure in 2018/19 has therefore been overstated as a result, with expenditure understated in 2017/18. As the amounts are not considered material in the context of the financial statements, no adjustment was required.

Follow up of prior year recommendations

31. Scottish Fiscal Commission has made some progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management, sustainability and governance



Main judgements

The Scottish Fiscal Commission remained within its budget, reporting an underspend of £32,000 in 2018/19.

Budget monitoring procedures and some aspects of internal control should be further improved. Regular, timeous and accurate reports should be prepared and provided to management.

We have no significant concerns about the overall financial position of the Scottish Fiscal Commission.

The information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

Financial management and financial sustainability

Financial performance in 2018/19

32. The main financial objective for the Scottish Fiscal Commission is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government. The Scottish Fiscal Commission has reported net operating costs of £1.598m remaining within its overall budget for 2018/19 with an underspend of £32,000.

2018/19 financial position

33. The Statement of Financial Position summarises what is owned and owed by the Scottish Fiscal Commission. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

34. The financial statements show that the Scottish Fiscal Commission has net liabilities of £84,000 (2017/18: £77,000). This is due to Scottish Fiscal Commission having a very low asset base with limited non-current assets and no bank account. This is not considered an issue in relation to the going concern of the organisation as the Scottish Fiscal Commission receives all its funding from the Scottish Government who have confirmed funding for 2019/20 in the Budget (Scotland) Act. The accounts have been prepared on a going concern basis and we are content with that judgement.

Short term financial planning

35. As a non-ministerial office of the Scottish Administration, the Scottish Fiscal Commission has its own budget and is funded directly by block funding from the Scottish Government. Scottish Ministers consider this budget alongside the resourcing needs of other public bodies and portfolios. The Scottish Fiscal Commission is separate from and independent of the Scottish Government.

36. The draft budget for the Scottish Fiscal Commission for 2019/20 has been set at £1.9m which is £270,000 (17%) more than the initial 2018/19 budget allocation.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

The 2019/20 budget allocation was approved by the Scottish Parliament in February 2019.

37. Funding from the Scottish Government is the Scottish Fiscal Commission's sole source of income and there is a greater degree of certainty over future funding streams than for some other public-sector organisations who are involved in income generating activities. Therefore, the main focus for the Scottish Fiscal Commission is achieving a balanced financial plan to remain within their annual allocation.

Longer term financial planning

38. The Scottish Fiscal Commission has a three-year financial plan. As part of the Framework agreement between the Scottish Fiscal Commission and Scottish Ministers, the Commission may identify its multi-year resource needs. Scottish Ministers will subsequently provide a clear indication of funding for the forthcoming financial year (year 1) and indicative funding for years 2 and 3 which can be reviewed should there be significant changes in circumstances. Accordingly, the Scottish Fiscal Commission prepared their spending projections for 2019/20 through to 2021/22 and submitted them to the Scottish Government in September 2018. A further update was provided to the Scottish Government for 2020/21 – 2022/23.

39. The Scottish Fiscal Commission should use this future indicative budget as a basis for developing longer term plans (5-10 years) in due course.

Budgetary processes

40. We reviewed the Scottish Fiscal Commission's budget setting and monitoring arrangements. We worked in tandem with internal audit to avoid duplication. Budget updates are provided to each meeting of the Board and more recently to the Audit and Risk Committee.

41. As noted above, we reported in 2017/18 that budget processes should be reviewed. We are pleased to note that some action has been taken to improve financial management through the production of guidance documents and the regular discussion at Board and Audit and Risk Committee meetings and by the senior management team.

42. Our review identified some areas for enhancement in relation to the reporting of the budget position. These included:

- the creation of a standard budgetary reporting format which includes information about the annual budget, the phased budget, spend to date and variance
- variances should be adequately explained together with corrective action taken or to be taken
- comparison with spending at the same point in time in the prior year might also enhance effective scrutiny of the spending.

43. Budget reports are based on a tracker spreadsheet. The spreadsheet is manually updated by staff and is meant to record all transactions. This tracker spreadsheet is reconciled each month to the trial balance which is taken from the financial ledger. We noted a number of issues in relation to the tracker spreadsheet which were also reported by internal audit. In their report on budgetary procedures, Internal Audit concluded that the controls in place were adequate but required improvement. They provided an overall 'reasonable' assurance opinion.

44. In particular we noted:

- several instances where the discrepancies between the spreadsheet and the trial balance had not been adequately explained

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

- there is no evidence of managerial review or oversight of the reconciliations
- the tracker spreadsheet has a number of internal inconsistencies for example, the summary sheet did not agree with the back up sheets due to incorrect linkages and formulae.



Recommendation 2

Budgetary control processes should be reviewed so that senior management and members receive accurate, regular, timely and up to date financial information on the financial position.

The tracker spreadsheet should be regularly reconciled to the ledger and evidence of this reconciliation retained on file. Budget reports will then reflect the current actual position.

Appendix 1, issue 2

Systems of internal control

45. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the Scottish Fiscal Commission has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

46. We reviewed the key controls within the general ledger, payroll and accounts payable systems and confirmed our understanding. We carried out walkthroughs of each and concluded that they are designed to detect and/or prevent risk of material misstatement. However, we identified some enhancements which could be made to strengthen existing controls.

47. There is no automatic control in place which requires journals to be authorised before they are posted. Two members of staff at the Scottish Fiscal Commission can post journals. Evidence retained on the file does not include a requirement for review and / or approval by a second person. An internal log of all journals processed is not kept.



Recommendation 3

To ensure all journals posted are appropriate and free from error, Scottish Fiscal Commission should consider the introduction of a periodic managerial review of journals. We have been advised that there is a facility on the system for a report to be run which would identify all manual journals.

Appendix 1, issue 3

48. Our review of payroll controls identified that no checks are undertaken on final salary payments to staff leaving the organisation. As staff costs represent over 80% of expenditure, we recommend management consider strengthening the controls over this area. Our financial statements audit noted two changes which related to final salary payments.



Recommendation 4

Management should consider introducing more formal controls around the payroll system in respect of final salary checks for leavers.

Appendix 1, issue 4

49. We reviewed list of users of the EASEBuy purchasing system. This identified two members of staff who had left the Scottish Fiscal Commission but their access has not been removed.



Recommendation 5

Controls should be introduced to ensure that all access rights of staff are withdrawn on leaving the organisation. Access rights should be periodically reviewed by management for appropriateness.

Appendix 1, issue 5

Governance and Accountability

Governance Arrangements

50. The Scottish Fiscal Commission was established as a statutory body on 1 April 2016 by the Scottish Fiscal Commission Act 2016. The Commission is a non-ministerial office of the Scottish Administration and is separate and independent of the Scottish Government.

51. As noted in the accountability report within the financial statements, at 31 March 2019 there were four commissioners one of whom was chair. One of the commissioners, who was also chair of the Audit and Risk Committee, resigned in June 2018. Two new members were appointed in October 2018 one of whom became the chair of the Audit and Risk Committee. As an interim measure the chair was temporarily appointed to the Audit and Risk Committee to ensure a quorum was achieved.

52. As part of our planning work we considered the Scottish Fiscal Commission's risk management arrangements. These arrangements have been developing throughout the year and were reviewed and revised in March 2019. The Governance Board discuss risks regularly and updates on key and emerging corporate risks are provided to the Audit and Risk Committee as a standing agenda item. We have concluded that risk management arrangements are appropriate. These arrangements now need to become fully embedded into the day to day operations of the organisation in order to become fully effective.

Governance statement

53. HM Treasury's Financial Reporting Manual (the FReM) states that the Scottish Fiscal Commission must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives.

54. The governance statement reflects a range of assurances received by the accountable officer in relation to the adequacy and effectiveness of the Board's system of internal control which operated during the financial year. As the organisation develops and matures, the current processes may need to be refined to ensure the accountable officer receives the required assurances from the members of the senior management team covering their areas of responsibility.

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.

55. We discussed some amendments to the draft governance statement to better reflect the position throughout the year which management agreed to implement. We concluded that the 2018/19 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents an appropriate picture of the governance arrangements in place.

Internal audit

56. Internal audit provides the Accountable Officer and the Audit and Risk Committee with independent assurance on risk management, internal control and corporate governance processes. The internal audit function is carried out by the Scottish Government Internal Audit Division (SGIAD).

57. The Public Sector Internal Audit Standards (PSIAS) require the “chief audit executive” to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2018/19 is that of ‘reasonable assurance’ which is defined as ‘some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature’.

58. Audit Scotland’s Scottish Government audit team reviewed the SGIAD arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine if they operate in accordance with PSIAS. No significant areas of non-compliance with the PSIAS were identified. We have considered the work of internal audit on budgetary processes and concluded that their findings are consistent with the knowledge gained throughout our audit.

Standards of conduct for prevention and detection of fraud and error

59. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

60. We have reviewed the arrangements in place to maintain standards of conduct including: the counter fraud policy, fraud response plan, the whistleblowing policy and the Code of Conduct for members of the Scottish Fiscal Commission. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

61. We have concluded that the Scottish Fiscal Commission has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Audit evidence</p> <p>Some of the working papers to back up the figures reported in the annual accounts were not available at the commencement of the audit.</p> <p>Risk: The audit is delayed if working papers are not available.</p>	<p>Management should review the procedures to ensure that all working papers are available at the outset of the audit.</p> <p>Exhibit 3</p>	<p>Although progress has been made in delivering the required evidence for the audit, better management of the monitoring process in-year will allow more timely delivery of the required evidence.</p> <p>Head of Governance</p> <p>Ongoing</p>
2.	<p>Financial management / budgetary processes</p> <p>Several amendments to the accounts presented to audit were as a result of mispostings to the ledger.</p> <p>Budget reporting could be enhanced. The tracker spreadsheet should be reviewed.</p> <p>Risk: There is a risk that expenditure incurred is not recognised and overspends against the agreed budget are incurred.</p>	<p>The action plan agreed with internal audit findings in relation to budget management should be progressed.</p> <p>Budgetary control processes should be reviewed so that senior management and members receive accurate, regular, timely and up to date financial information on the financial position.</p> <p>The tracker spreadsheet should be regularly reconciled to the ledger and evidence of this reconciliation retained on file. Budget reports will then reflect the current actual position.</p> <p>Exhibit 3; Paragraphs 42 and 44</p>	<p>Corporate Strategy will be working with Accountancy Services and internal audit to improve management of transactions in the ledger and for a prompter resolution of any mis-posting. Work is also being taken forward to further enhance the tracker spreadsheet to make it more robust.</p> <p>Head of Governance</p> <p>Ongoing</p>
3	<p>Review of journals</p> <p>There is no automatic control which requires journals to be authorised before they are posted. There is no management oversight of journals posted.</p> <p>Risk: There is a risk that incorrect ledger entries are processed.</p>	<p>A periodic managerial review of journals should be undertaken. Management advised that there is a facility on the system for a report to be run which would identify all manual journals.</p> <p>Paragraph 47</p>	<p>Corporate Strategy will be working with Accountancy Services and Internal Audit to improve management of transaction in the ledger and for a prompter resolution of any mis-posting more promptly This will include improved procedures to better manage correcting journal transfers.</p> <p>Head of Governance</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
			Ongoing
4	<p>Payroll controls</p> <p>No checks are undertaken of staff leavers' final salary payments.</p> <p>Risk: There is a risk that inappropriate expenditure is incurred and that errors are not identified timeously.</p>	<p>The Scottish Fiscal Commission should consider introducing more formal controls over payroll for example final salary checks for leavers.</p> <p>Paragraph 48</p>	<p>Payroll information will be compared each month with starters and leavers and the ledger with any discrepancies followed up with Pay Administration Team. This will be recorded within the tracker.</p> <p>Head of Governance</p> <p>Ongoing</p>
5	<p>Access rights</p> <p>Two members of staff who had left the Scottish Fiscal Commission did not have their access rights to the EASEbuy purchasing system revoked.</p> <p>Risk: There is a risk that leavers still have access to key systems resulting in inappropriate entries being made on the ledger.</p>	<p>Controls should be introduced to ensure that all access rights of staff are withdrawn on leaving the organisation.</p> <p>Access rights should be periodically reviewed by management for appropriateness.</p> <p>Paragraph 49</p>	<p>Although a requisitioner and approver had access to EASEbuy after leaving the Commission, controls within the system would limit the usefulness of such access. Access rights will be reviewed as and when changes in personnel take place or at least 6 monthly intervals and evidence retained in eRDM.</p> <p>Head of Governance</p> <p>Ongoing</p>
Follow up of prior year recommendations			
1	<p>Delays in audit process</p> <p>The draft financial statements were not provided in line with the agreed timetable and the working papers were of a poor standard.</p> <p>Detailed discussions were held with staff to clarify expectations.</p> <p>Risk: The accounts are not delivered in accordance with guidance resulting in a delay in the audit process and a qualified audit opinion.</p>	<p>Scottish Fiscal Commission should review their year-end processes and inhouse financial expertise to ensure production of the accounts together with all related working papers in compliance with agreed timetables.</p>	<p>The Scottish Fiscal Commission reviewed year-end processes and planning for the annual report and audit and presented a paper on this to the Audit and Risk Committee in March 2019.</p> <p>2018/19 draft financial statements were provided on time and working papers were of better quality.</p> <p>During 2018/19 staff went on SEAS (Scottish Executive Accounting System) training and the Scottish Fiscal Commission asked internal audit to examine its budgetary processes.</p> <p>A decision was made to employ a Finance Manager who started work in July 2019.</p> <p>See point 1 above.</p> <p>Ongoing</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
2	<p>Revenue expenditure incorrectly classified as capital</p> <p>Annual payments for software subscriptions of £26,000 were initially recorded as capital expenditure. These payments should have been recorded as revenue expenditure.</p> <p>Risk: Expenditure is incorrectly categorised resulting in invalid expenditure being charged to revenue (as depreciation) and capital.</p>	<p>Scottish Fiscal Commission should review their year end processes to ensure that they are capturing and coding all expenditure correctly.</p>	<p>Our testing did not identify any revenue expenditure being incorrectly classified as capital.</p> <p>Recommendation closed</p>
3	<p>Budgetary control arrangements</p> <p>As part of our audit we identified a number of matters arising which indicate that budgetary control processes require to be improved.</p> <p>Risk: Management are not aware of the up to date financial position resulting in an overspend against budget.</p>	<p>Budgetary control processes should be reviewed so that senior management and members receive accurate, regular, timely and up to date financial information on the financial position.</p>	<p>During 2018/19 desk instructions were prepared to guide staff. Management highlighted to staff the importance of following procedures in the purchasing processes and retaining documentation to support journal transfers.</p> <p>See point 2 above</p> <p>Ongoing</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 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>	<ul style="list-style-type: none"> • Review of accounting estimates. • Detailed testing of journal entries. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. • Substantive testing of transactions after the year end to confirm expenditure and income have been accounted for in the correct financial year • Focused testing of accounting adjustments at the year-end. 	<p>We did not identify any issues as a result of our audit work that would indicate management override of controls affecting the year end position.</p>
<p>2 Financial Capacity</p> <p>In our 2017/18 Annual Audit Report we raised some concerns around financial capacity and experience.</p> <p>Staffing and accounts preparation processes for 2018/19 are being currently reviewed but have still to be confirmed.</p> <p>There is a risk that the financial statements are not prepared in accordance with the appropriate guidance or in line with the statutory timetable.</p>	<ul style="list-style-type: none"> • We provided a working paper requirements checklist together with links to appropriate guidance. • Ongoing discussions with management over accounts preparation. 	<p>Accounts were prepared on time and working papers were generally reasonable. However, not all working papers were made available to the audit team at the start of our year end visit (see Appendix 1, issue 1).</p>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>3 Financial management</p> <p>We reported in our 2017/18 annual audit report and identified as part of our 2018/19 audit planning processes some matters arising around financial management. These included:</p> <ul style="list-style-type: none"> • the accuracy of budget reporting against the tracker • the effectiveness of budgetary control processes in communicating accurate and timely financial performance • the operation of internal controls. <p>There is a risk that financial management is ineffective resulting in an overspend against budget.</p>	<ul style="list-style-type: none"> • Review of budgetary control updates. • Review of reconciliations between tracker and ledger • Review Internal Audit's work on budgetary control arrangements • Monitor progress on achievement of multi-year budgets and funding 	<p>The Scottish Fiscal Commission should continue to strengthen financial management and also address the issues and risks highlighted by internal audit in their review of budgetary processes (see Appendix 1, issue 2).</p>

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Central Government relevant reports

[Scottish Fire and Rescue Service: an update](#) – May 2018

[Scotland's colleges 2018](#) – June 2018

[The National Fraud Initiative in Scotland 2016/17](#) – July 2018

[Forth Replacement Crossing](#) – August 2018

[Major project and procurement lessons](#) – August 2018

[Superfast broadband for Scotland: further progress update](#) – September 2018

Scottish Fiscal Commission

2018/19 Annual Audit Report

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