

Scottish Government

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Scottish Government

April 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of the Scottish Government¹. The main elements of our work include:

- an evaluation of the key controls within the main accounting systems
- an audit of the financial statements leading to an independent audit opinion
- audit opinions on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of best value arrangements
- providing assurance on the Whole of Government Accounts (WGA) return.

Impact of Covid-19

2. The Covid-19 pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to the Scottish Government 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 to help the Scottish Government promote improved standards of governance, better management and decision making and more effective use of resources.

1. When we refer to the audit of the Scottish Government, we refer to the Scottish Government and its group. The group comprises: the internal portfolios supported by Administration (the Scottish Government core); executive agencies; the Crown Office and Procurator Fiscal Service, and the NHS Bodies responsible for the planning, promotion, commissioning and delivery of healthcare.

Respective responsibilities of the auditor and the Scottish Government

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the Scottish Government. Key responsibilities are summarised below.

Auditor responsibilities

6. 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.

7. 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.

Scottish Government responsibilities

8. The Scottish Government's consolidated accounts 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. The Scottish Government is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. The Scottish Government has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Financial statements audit planning

Materiality

10. We are required to plan our audit to determine, with reasonable confidence, whether the financial statements are free from material misstatement. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. The assessment of what is material is a matter of professional audit judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

11. We assess materiality at different levels as described below. The calculated materiality values for the Scottish Government (consolidated accounts and core schedules) are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for the Scottish Government

Materiality	Core	Group
Planning materiality – This is the figure we calculate to assess 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 2022 based on the 2021/22 Spring Budget Revision.	£79 million	£512 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 assessed performance materiality at 50% of planning materiality.	£40 million	£256 million
Reporting threshold – 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 1% of planning materiality and capped at £0.25 million.	£0.25 million	£0.25 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

12. Our risk assessment draws on our cumulative knowledge of the Scottish Government, its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at committees and assurance groups, and a review of supporting information.

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

Exhibit 2a

2021/22 Significant risks of material misstatement to the financial statements

#	Significant risk of material misstatement	Sources of assurance	Planned audit response
1.	<p>Risk of fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	Owing to the nature of this risk, assurances from management are not applicable in this instance	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Testing of journal entries including year-end and post-closing entries.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantive cut off testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p> <p>Consideration of the results of controls testing.</p> <p>Consideration of internal audit reports.</p>

#	Significant risk of material misstatement	Sources of assurance	Planned audit response
2.	<p>Estimation and judgements</p> <p>Significant estimation and judgement are required in the measurement, valuation and disclosures of material account balances, including student loans, financial assets, provisions, contingent liabilities and financial guarantees.</p> <p>Specifically, in relation to student loans, the assumptions used in the valuation model are highly dependent on the macroeconomic environment and are likely to vary in the short term.</p> <p>Estimations and judgements create a higher risk that material areas in the accounts could be misstated.</p>	<p>Management exercise judgement in line with accounting standards.</p> <p>Non-statutory guarantees or indemnities in excess of £1 million require the approval of the Scottish Parliament.</p> <p>A record of contingent liabilities, guarantees, indemnities and letters of comfort is maintained by management.</p> <p>Evaluation of guarantees involves financial modelling to simulate sources of uncertainty.</p> <p>Student loan model updated for latest assumptions.</p> <p>Management expert reports.</p>	<p>Review of the student loans model (assumptions and application).</p> <p>Focused substantive testing on student loans, investments and provisions.</p> <p>Review of 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, investments, provisions, contingent liabilities and guarantees.</p> <p>Assessment of management experts in conjunction with consideration of associated reports.</p>

Source: Audit Scotland

14. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the Scottish Government because most of the income (96%) relates to Scottish Consolidated Fund (SCF) drawdowns. Based on the analysis of this other income, we consider that the nature of this income does not represent a risk of fraud in revenue recognition.

15. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

16. As part of our assessment of audit risks, we have identified other risks of material misstatement to the financial statements ([Exhibit 2b](#)). We will keep these

areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

17. The other areas of specific audit focus are:

Exhibit 2b

2021/22 Risks of material misstatement to the financial statements

#	Risk of material misstatement	Sources of assurance	Planned audit response
3.	<p>Risk of fraud in expenditure</p> <p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure.</p> <p>The high volume and diverse nature of expenditure incurred by the Scottish Government results in a risk of fraud over expenditure.</p> <p>The auditor's opinion on Social Security Scotland (SSS) agency accounts has been qualified each year on the grounds of regularity in respect of benefit expenditure.</p> <p>Further, the Scottish Government has provided £5.8 billion of Covid-19 related funding in 2021/22 involving a range of delivery organisations.</p> <p>Taking these factors together, there is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<p>The nature of arrangements means that the majority of Scottish Government expenditure is to provide funding to other public bodies.</p> <p>Sound budgetary control and monitoring arrangements.</p> <p>Internal audit reports.</p> <p>Oversight by the Corporate Board.</p> <p>The audit of the Social Security Scotland financial statements, including assessment of levels of estimated error provided by the DWP.</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 and reporting.</p> <p>Consider any relevant internal audit reports.</p> <p>Regular communication with auditors of the Social Security Scotland.</p> <p>Review of the extent and nature of Covid-19 grants distributed by the Scottish Government.</p> <p>Review action taken to minimise levels of fraud and error relating to Covid-19 funding.</p>
4.	<p>Presentation of Financial Statements</p> <p>To ensure the audit is completed in accordance with the statutory timescale, it is essential that a complete set of core schedules and a full unaudited set of consolidated accounts are received by the dates agreed in Exhibit 6. All relevant</p>	<p>Meetings between relevant Scottish Government officers and Audit Scotland external audit team.</p> <p>Scottish Government timetable for the provision of a complete set of core</p>	<p>Regular engagement with Scottish Government.</p>

#	Risk of material misstatement	Sources of assurance	Planned audit response
	<p>working papers should be provided in accordance with these timescales.</p> <p>There is a risk that the audit is not completed in line with the statutory timetable and that the financial statements are qualified due to an absence of appropriate working papers.</p>	<p>schedules and consolidated financial statements.</p>	
5.	Student loans		
	<p>In 2020/21, we identified a significant number of discrepancies between working papers, disclosures in the accounts and the financial ledger during our audit of student loans. There was a lack of clarity on specific responsibilities over accounting for student loans between the Scottish Government and SAAS.</p> <p>As a result of our audit work, gross adjustments of £155 million were processed which increased gross expenditure by £76 million.</p> <p>There is a risk that the accounting and disclosures are not in accordance with agreed procedures resulting in a material misstatement in the financial statements.</p>	<p>Updated working papers from the Student Awards Agency of Scotland (SAAS).</p> <p>Student loans model updated for latest assumptions and run after the year end.</p> <p>Communication between SAAS and Scottish Government.</p>	<p>Review of student loans model and associated working papers</p> <p>Consideration of student loans provision including movements</p> <p>Review of fair value adjustments affecting student loans asset</p> <p>Regular engagement with the SAAS and Scottish Government</p>

Source: Audit Scotland

Group Consideration

18. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

19. The Scottish Government has a group which comprises component entities, including subsidiaries, associates and joint ventures. The audits of the financial information of some these components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Audit risk assessment process

20. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise the Scottish Government and where relevant, report them to those charged with governance.

Audit dimensions and best value

Introduction

21. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

22. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

Exhibit 3

Audit dimensions



Source: Code of Audit Practice

23. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Duty of best value

24. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. We shall undertake a high-level review to confirm that such arrangements are in place within the Scottish Government.

Audit dimension risks

25. We have identified wider dimension audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4

2021/22 Audit dimension risks

#	Description of risk	Sources of assurance	Planned audit response
6.	<p>Scottish public sector accounts</p> <p>The Scottish Government has committed to the development of a devolved public sector account on a two-stage basis beginning with production of an account at the Scottish Administration level. The second stage which will incorporate NDPBs, other public bodies and local authorities will require more in-depth analysis and review.</p> <p>There is a risk that decision making over the longer term will be negatively impacted without a comprehensive and transparent assessment of the state of Scotland's public finances.</p>	<p>Production of Scottish Administration level account.</p> <p>Production of stage two accounts incorporating NDPBs, other public bodies and local authorities.</p>	<p>Engagement with Scottish Government officers to discuss progress.</p> <p>Review of the accounts (stages one and two) as they are provided to audit.</p>

#	Description of risk	Sources of assurance	Planned audit response
7.	<p>Financial intervention in private companies</p> <p>The Scottish Government has developed a framework for interventions in private companies. The framework will be issued as an update to the Scottish Public Finance Manual (SPFM) in Spring 2022.</p> <p>There continues to be a risk that the Scottish Government provides financial support to private companies without understanding their overall financial capacity, risk tolerance or expected outcomes, potentially increasing the risk of poor decision making.</p>	<p>Procedural guidance within the Scottish Public Finance Manual to support Accountable Officers and the decision-making process for potential interventions.</p> <p>Knowledge and expertise of Business Resilience and Support Directorate which includes the Strategic Commercial Interventions Division.</p>	<p>Review of updates to the SPFM.</p> <p>Review any significant financial assistance offered to private companies in 2021/22.</p> <p>Review developments in the current arrangements in relation to assistance provided to private companies.</p>
8.	<p>Transparency in reporting</p> <p>The performance report requires to be further refined to ensure greater accessibility and transparency to the reader. The Scottish Government accepted and recognised that further improvements could be made.</p> <p>We also noted in 2020/21 that only high-level details were provided on how Covid-19 funding was spent which reduced transparency in an area of high public interest.</p> <p>There is a risk that transparency in reporting is not provided in respect of both Covid-19 expenditure and Scottish Government performance against targets.</p>	<p>Updated performance reporting in the 2021/22 financial statements.</p> <p>SG also undertakes wider reporting on Covid-19, outwith the financial statements, including 2020 to 2021 Budget documents, most recently: Spring budget revision: 2020 to 2021 - gov.scot (www.gov.scot)</p> <p>Related correspondence with the Finance and Public Administration Committee, specifically the additional information on Covid-19 allocations and expenditure in the Guide to the SBR (2610 (parliament.scot)).</p> <p>Statistical publications and Management information relating to COVID-19 Business Support Funding including:</p> <ul style="list-style-type: none"> • Coronavirus (COVID-19): summary of Scottish business 	<p>Discussions with relevant Scottish Government officers over their performance reporting including Covid-19 expenditure.</p>

#	Description of risk	Sources of assurance	Planned audit response
		<p>support funding - gov.scot (www.gov.scot)</p> <ul style="list-style-type: none"> • Coronavirus (COVID-19): business support fund grant statistics - gov.scot (www.gov.scot) • Bed and Breakfasts Hardship Fund (B&BHF) - Coronavirus (COVID-19): hardship and resilience funds statistics - gov.scot (www.gov.scot) • Coronavirus (COVID-19): liquidity support for SME housebuilders - gov.scot (www.gov.scot) • Seafood Producers Resilience Fund: beneficiaries - gov.scot (www.gov.scot) 	

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

26. All of our annual audit plans, management reports, annual audit reports and other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

27. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers and discussed to confirm factual accuracy.

28. We will provide an independent auditor's report to the Scottish Government, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the Scottish Government and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

29. [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the 31 October 2022.

Exhibit 5

2021/22 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	14 March 2022	21 March 2022
Management Report	6 June 2022	13 June 2022
Annual Audit Report	31 October 2022	tbc
Independent Auditor's Report	31 October 2022	N/A
Section 22 report on the 2021/22 audit of the Scottish Government Consolidated Accounts	31 October 2022	N/A
Assurance statement on the Whole of Government Accounts	To be confirmed	N/A



Source: Audit Scotland

Timetable

30. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a timetable for the audit at [Exhibit 6](#) which has been discussed with management.

Exhibit 6

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date of complete core schedules with supporting working papers	30 June 2022
Latest submission date for the receipt of complete unaudited consolidated financial statements with complete working papers	15 September 2022
Latest date for final clearance meeting with the Chief Financial Officer	24 October 2022
Agreement of audited and unsigned annual report and accounts; issue of Annual Audit Report including ISA260 report to those charged with governance	31 October 2022
Signed Independent Auditor's Report	31 October 2022
Latest date for WGA assurance	To be confirmed

Source: Audit Scotland

Audit fee

31. The agreed audit fee for the 2021/22 audit of the Scottish Government is £1,181,440 (2020/21: £1,157,850). 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.

32. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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.

Other matters

Internal audit

33. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

34. Internal audit is provided by the Internal Audit Division (IAD) of the Scottish Government's Directorate of Internal Audit and Assurance (DIAA). International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use 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 and effectively.

Independence and objectivity

35. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. 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.

36. The engagement lead for the Scottish Government is Michael Oliphant, Audit 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

37. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

38. 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.

39. 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.

Scottish Government

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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