

Scottish Fiscal Commission

2020/21 Annual Audit Report



 AUDIT SCOTLAND

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

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Key messages

2020/21 annual report and accounts

1. Our audit opinions on the annual report and accounts are unmodified.
2. The Scottish Fiscal Commission's financial statements give a true and fair view of its financial position and its net expenditure for the year.
3. The expenditure recorded in the financial statements was incurred in accordance with applicable enactments and guidance.
4. The annual report and accounts have been properly prepared in accordance with the financial reporting framework.

Financial sustainability and governance

5. The Scottish Fiscal Commission remained within its budget, reporting an underspend of £63,000 in 2020/21.
6. We have no significant concerns regarding the overall financial position of the Scottish Fiscal Commission.
7. The Scottish Fiscal Commission has a medium-term financial plan but has yet to develop a longer-term financial plan.
8. Governance arrangements and controls operating throughout the pandemic have continued to be appropriate.

Introduction

1. This report summarises the findings from our 2020/21 audit of the Scottish Fiscal Commission.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 17 February 2021 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of the Scottish Fiscal Commission's annual accounts
 - our consideration of financial sustainability.
3. Like all public bodies, Scottish Fiscal Commission had to respond to the global coronavirus pandemic during the 2020/21 financial year. This has resulted in changes to the work environment with all functions being delivered by home-working and virtual meetings. There have been no substantive changes to the governance arrangements of the Scottish Fiscal Commission.

Adding value through the audit

4. 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
 - reporting our findings and conclusions in public
 - recommending and encouraging good practice
 - 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 financial sustainability and governance.
5. 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

6. 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.

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

8. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and [supplementary guidance](#).

9. The Code of Audit Practice 2016 (the Code) includes provisions relating to the audit of small bodies. 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. As highlighted in our 2020/21 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2020/21 audit.

10. This report raises matters from our audit. 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.

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

Auditor Independence

12. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £28,190 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to 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.

Part 1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual report and accounts are unmodified.

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

The expenditure recorded in the financial statements was incurred in accordance with applicable enactments and guidance.

The annual report and accounts have been properly prepared in accordance with the financial reporting framework.

Our audit opinions on the annual report and accounts are unmodified

14. 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 2021 on 11 October 2021. The Chief Executive signed the annual report and accounts later that same day.

15. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are 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.

The annual report and accounts were prepared on time

16. Scottish Fiscal Commission and Audit Scotland staff continued to work from home for the duration of the audit due to the Covid-19 pandemic. We kept in regular communication with management throughout the audit. Despite the challenges of remote working, the audit was completed in line with the agreed timetable.

17. The unaudited annual report and accounts were received on 23 July 2021. The working papers provided with the unaudited financial statements were complete and of a good standard. Management provided good support to the audit team which helped to ensure that the audit was completed in accordance with the agreed timetable.

Overall materiality is £40,000

18. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and no amendments were required. This is summarised in [Exhibit 1](#).

Exhibit 1

Quantitative materiality values

Materiality level	Amount
Overall materiality	£40,000
Performance materiality	£26,000
Reporting threshold	£2,000

Source: Scottish Fiscal Commission Annual Audit Plan 2020/21

Appendix 2 identifies the main risk of material misstatement and our audit work to address these

19. [Appendix 2](#) provides our assessment of the main risk of material misstatement in the annual report and accounts. This risk influences our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. [Appendix 2](#) also identifies the work we undertook to address this risk and our conclusion.

20. We have no issues to report from our work on this risk of material misstatement.

We have no significant findings to report on the annual report and accounts

21. 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 Scottish Fiscal Commission's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

22. Our audit identified some minor presentational and disclosure issues in the unaudited financial statements and the narrative within the performance and accountability report sections. These were discussed with finance staff and subsequently amended in the audited annual report and accounts.

23. We have no significant findings to report to the Audit and Risk Committee. An identified area for improvement has been raised below.

One identified misstatement was adjusted in the accounts

24. There are no unadjusted errors in the audited annual report and accounts. There was one identified misstatement above our reporting threshold which resulted in an adjustment to the Statement of Cash Flows (£6,000).

25. There were no further identified misstatements arising from our audit.

Good progress was made on prior year recommendations

26. Scottish Fiscal Commission has made good 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](#).

The processes for preparing and authorising journals in the financial ledger could be improved

27. We reviewed the financial ledger as part of our financial statements audit work and identified several journal entries that were processed incorrectly during the year. These required correcting journals to be made by staff both in the financial year and as a result of our audit work. An example of an incorrect adjustment is mis-postings to the wrong account codes.

28. We reviewed the ledger to obtain assurance that the final correcting adjustments were accurate, complete and did not result in any misstatements within the unaudited annual report and accounts. We concluded that no further adjustments were required.

29. We acknowledge that there has been a history of ongoing improvement in this area, in recent years. Going forward, management should ensure that journals are reviewed and authorised by a second individual prior to posting journals to the ledger. This would help minimise the risk of erroneous adjustments being processed and not being identified for correction prior to preparation of budget reports and the year-end financial statements. The naming convention of journal entries could also be improved by ensuring

consistency and completeness in their descriptions. This would help support internal budget reporting.

Recommendation 1

Scottish Fiscal Commission should improve its processes for preparing and authorising journals in the ledger which will ensure that incorrect adjustments are minimised and identified. This should include separate authorisation of journals and the use of consistent and complete descriptions for these journals.

[Appendix 1, Recommendation 1](#)

Part 2. Financial sustainability and governance

Main judgements

The Scottish Fiscal Commission remained within its budget, reporting an underspend of £63,000 in 2020/21.

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

The Scottish Fiscal Commission has a medium-term financial plan but has yet to develop a longer-term financial plan.

Governance arrangements and controls operating throughout the pandemic have continued to be appropriate.

Scottish Fiscal Commission operated within its 2020/21 budget and has an underspend of £63,000

30. 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 £1.985m remaining within its overall budget of £2.048m for 2020/21, with an underspend of £63,000. The Scottish Fiscal Commission identified that this was mainly a result of budgeting for overtime near the end of the financial year, which was subsequently not required.

There are net liabilities recorded in the statement of financial position

31. 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.

32. The 2020/21 financial statements show that the Scottish Fiscal Commission has net liabilities of £125,000 (2019/20: £119,000). This is due to the 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 2021/22 in the Budget (Scotland) Act. The accounts have been prepared on a going concern basis and we are content with that judgement.

The Scottish Fiscal Commission has a medium-term financial plan but has yet to develop a longer-term financial plan

33. 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.

34. Accordingly, the Scottish Fiscal Commission prepared its spending projections for the three years from 2021/22 to 2023/24 and submitted them to the Scottish Government in November 2020. Formal confirmation of the 2021/22 funding awarded and indicative funding for 2022/23 and 2023/24 was received from the Cabinet Secretary for Finance in March 2021.

35. The Scottish Fiscal Commission has good medium-term financial planning arrangements in place, which are effective in identifying and addressing risks to financial sustainability across this period.

36. There is no long-term financial plan (5-10 years) at the Scottish Fiscal Commission. Long-term financial strategies help set the context for annual budgets and help demonstrate the financial sustainability of an organisation over an extended period. The future indicative budgets should be used as a basis for developing longer term plans in due course.

Governance arrangements

37. The Scottish Fiscal Commission was established as a statutory body on 1 April 2017 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.

38. As noted in the accountability report within the financial statements, at 31 March 2021 there were four commissioners, one of whom was chair. There were no changes to these governance arrangements during 2020/21.

39. Scottish Fiscal Commission has had appropriate governance and controls during the Covid-19 pandemic. All meetings of the Governance Board and the Audit and Risk Committee were held virtually in 2020/21. Internal controls operated effectively at the body and were unchanged by the impact of the pandemic.

40. Internal audit assessed Scottish Fiscal Commission's corporate governance arrangements in 2020/21, giving an overall "substantial" assurance opinion. The governance arrangements were deemed effective in supporting the delivery of corporate objectives. Internal audit concluded that controls in place at the body were robust and well-managed.

Governance statement

41. 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.

42. 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, including the internal delegation of smaller budget areas.

43. 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 information disclosed in the 2020/21 governance statement complies with the guidance issued by the Scottish Ministers. Based on our knowledge and work performed, it presents an appropriate picture of the governance arrangements in place.

The performance report is of a good quality and met the FReM requirements

44. In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of the performance report included in the annual report and accounts. We concluded that the Scottish Fiscal Commission's performance report is of a good quality and met the requirements of the 2020/21 Government Financial Reporting Manual (FReM).

45. The purpose of a performance report is to provide information on the main objectives and strategies of the organisation, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of performance, and is essential in helping stakeholders understand the financial statements. The performance report is therefore an opportunity for the organisation to 'tell its story' about what it has achieved in the financial year with the funding made available to it.

46. We noted that management made improvements to the presentation of the performance report this year, including a greater use of infographics to help 'tell the story' of the Scottish Fiscal Commission during the year. Performance against each corporate objective was measured on a qualitative basis. There is limited use of key performance indicators or quantitative measures in the performance report, which we have concluded to be appropriate given the nature of the entity. We would encourage the Scottish Fiscal Commission as it develops future corporate and business plans to consider whether there are opportunities to introduce quantitative measures to support measuring performance against objectives.

National performance audit reports

47. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland.

[Appendix 3](#) highlights a number of the reports published in 2020/21.

Good practice

48. We identified good practice in the Scottish Fiscal Commission's annual report and accounts in the disclosures relating to diversity and inclusion. This includes the response to the Scottish Parliament's Equalities and Human Rights Committee's report Race Equality and Skills. The Scottish Fiscal Commission has identified actions for 2021/22 to support improving diversity which will be reported on, including in next year's annual report and accounts.

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Preparing and authorising journals</p> <p>We identified several journal entries that were processed incorrectly during the year.</p> <p>These required correcting journals to be made by staff both in the financial year and as a result of our audit work.</p> <p>Risk: There is a risk of miscoded or incorrect journals in the ledger, which results in inaccurate financial reporting.</p>	<p>Management should ensure that journals are reviewed and authorised separately prior to posting to the ledger.</p> <p>The naming convention of journal entries could also be improved by ensuring consistency and completeness in their descriptions.</p> <p>Paragraph 30</p>	<p>Approval of journals has been formalised with the creation of a form to be completed and reviewed by a separate officer. The form includes the description of the journal and the accounting details to be used. This process is now being used to authorise journals.</p> <p>Governance Manager Completed</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Budget monitoring</p> <p>Financial management and budget monitoring have improved during 2019/20.</p> <p>Some areas for improvement were identified to enhance the process including:</p> <ul style="list-style-type: none"> the evidencing and reviewing of the tracker and ledger reconciliations management should enhance their knowledge of Scottish Government shared 	<p>The processes and procedures relating to the tracking spreadsheet and budgetary control should continue to be reviewed.</p> <p>Reconciliations should be evidenced and duplicate journals minimised.</p>	<p>Ongoing</p> <p>The tracker spreadsheet is reconciled to the ledger and reviewed monthly, with evidence of this retained by staff. Further improvements to the evidencing of secondary review process were raised with staff during the year and have been implemented.</p> <p>A stronger understanding of Scottish Government shared services, and the overall</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>service processes in order to assess their impact on expenditure</p> <ul style="list-style-type: none"> • a number of journal entries were duplicated and had to be reversed. <p>Risk: There is a risk that budget monitoring is not a full reflection of activity.</p>		<p>impact on expenditure, was demonstrated by Scottish Fiscal Commission staff in 2020/21.</p> <p>We identified several journal entries that were processed incorrectly during the year. These required correcting journals to be made by staff both in the financial year and as a result of our audit work.</p> <p>Refer to Action plan point 1 above</p>
<p>b/f 2. Performance report</p> <p>We noted scope to further improve the performance report through the use of key performance indicators, diagrams and infographics.</p> <p>Risk: The opportunity to tell the full story of the Scottish Fiscal Commission during the year is missed.</p>	<p>The performance report could be further improved by the introduction of specific, measurable targets going forward and more use of diagrams and infographics.</p>	<p>Complete</p> <p>There were further improvements noted in the performance report this year. Performance against each corporate objective was measured on a qualitative basis by the Scottish Fiscal Commission. There is limited use of key performance indicators in the performance report, which we have concluded to be appropriate.</p> <p>There was also greater use of infographics to help tell the story of the Scottish Fiscal Commission during the year.</p>

Appendix 2. Significant audit risks

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.

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement caused by management override of controls</p> <p>International Auditing Standards (ISA 240) require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit.</p> <p>This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Review of accounting estimates</p> <p>Detailed testing of journal entries</p> <p>Focused testing of accruals and prepayments</p> <p>Evaluation of significant transactions that are outside the normal course of business</p> <p>Focused testing of accounting adjustments at the year-end</p> <p>Substantive testing of transactions after the year end to confirm transactions have been accounted for in the correct financial year.</p>	<p>Results: We did not identify any issues from our audit work that would indicate management override of controls affecting the financial statements.</p> <p>Conclusion: Satisfactory.</p>

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

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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



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