

Scottish Consolidated Fund

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for the Scottish Government
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Contents

Introduction	3
Audit Planning	5
Wider Scope	9
Reporting arrangements, timetable, and audit fee	10
Other matters	13

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 audit. The main elements of the audit include:

- an audit of the annual accounts of the Scottish Consolidated Fund and the issue of an Independent Auditor's Report and Annual Audit Report setting out our audit opinions on the financial statements, regularity and other statutory information including the foreword and governance statement
- consideration of arrangements in relation to financial sustainability and the governance statement
- providing assurance on the Whole of Government Accounts (WGA) return.

2. There has been no change to the audit team as we move into the second year of this audit appointment. Carole Grant remains the appointed auditor.

Respective responsibilities of the auditor and the Scottish Government

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

Auditor responsibilities

4. 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.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements in place at the Scottish Government in respect of the Scottish Consolidated Fund. In doing this, we aim to support improvement and accountability.

Scottish Government responsibilities

6. The Scottish Consolidated Fund receives sums which have been voted by the UK Parliament as well as receipts collected from other sources such as devolved taxes and Scottish Income Tax. Sums paid out of the Scottish Consolidated Fund are used to support spending plans approved by the

Scottish Parliament in the annual Budget Act. The Scottish Government has stewardship of these funds and prepares the annual accounts of the Scottish Consolidated Fund, reflecting all payments into and out of the fund.

7. The Scottish Government is responsible for maintaining accounting records and preparing financial statements in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers

8. In addition, 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.

Adding Value

9. We aim to add value to the Scottish Government by being constructive and forward looking and providing independent conclusions on all aspects of the audit. We will identify areas for improvement and recommend, and encourage, good practice. In so doing, we will promote improved standards of governance, better management and decision making, and more effective use of resources.

Audit Planning

Introduction

10. The Scottish Consolidated Fund annual accounts are an essential part of demonstrating the Scottish Government's stewardship of resources.

11. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report. Our audit work is conducted in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 and guidance from Audit Scotland.

12. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. As appointed auditor, I am required to plan my audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

14. We assess materiality at different levels and the materiality values for the Scottish Consolidated Fund are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for the Scottish Consolidated Fund

Materiality	Amount
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Scottish Consolidated Fund. For the year ended 31 March 2024, we have set our materiality at 2 per cent of judicial salaries based on the audited financial statements for 2022/23.</p>	£0.750 million

Materiality	Amount
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 75 per cent of planning materiality.</p> <p>In practice, due to the nature of the Scottish Consolidated Fund, we recognise that any payment that is not in accordance with applicable legislation would require us to report as part of our opinion on the financial statements.</p>	£0.560 million
<p>Reporting threshold – Due to the nature of the Scottish Consolidated Fund we are required to report all unadjusted misstatements to those charged with governance.</p>	N/A

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the Scottish Consolidated Fund, its major transaction streams, key systems of internal control, and risk management processes. It is also informed by our discussions with management and a review of supporting information.
16. 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 audit. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.
17. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This risk has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, management's sources of assurance over the risk, and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2**2023/24 Significant risks of material misstatement to the financial statements**

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (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> <p>This is presumed to be a significant risk in every audit.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journal entries and other adjustments during the financial year. • Evaluate significant transactions outside the normal course of business. • Substantive testing of receipts and payments transactions.

Source: Audit Scotland

18. 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. We have rebutted this risk for the Scottish Consolidated Fund due to the nature of the receipts in the account i.e. these are laid down in statute and are flows of funding arising from other accounts or legislation. As such we consider there to be a low risk of fraud in this area.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for the Scottish Consolidated Fund due to the nature of the payments in the account i.e. these are laid down in statute and are flows of funding arising from other accounts or legislation. As such we consider there to be a low risk of fraud in this area.

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

Regularity

21. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

22. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any potential irregular transactions, where necessary.

Wider Scope

23. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit in Scotland and requires auditors to conclude on the effectiveness and appropriateness of the arrangements in place for each area.

24. The four wider scope areas are financial management, financial sustainability, vision, leadership and governance, and use of resources to improve outcomes.

Less complex bodies

25. The Code of Audit Practice includes provisions relating to the audit of less complex 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.

26. Due to the nature of the Scottish Consolidated Fund, including the low volume and lack of complexity of the financial transactions, we have concluded that the less complex provision can be applied.

27. We have not identified any specific risks in relation to the wider scope audit.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

28. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

29. 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 accounts. We will also provide the Scottish Government and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on financial sustainability and the governance statement.

30. [Exhibit 3](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. We plan to issue our Independent Auditor's Report and Annual Audit Report by the statutory deadline of 31 October 2024.

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Audit and Assurance Committee Date
Annual Audit Plan	31 March 2024	4 March 2024
Independent Auditor's Report	31 October 2024*	To be confirmed
Annual Audit Report	31 October 2024*	To be confirmed

Source: Audit Scotland

* These dates represent the date for the independent auditor's report to be signed and the final annual audit report issued. We will provide copies to those charged with governance in advance of the appropriate Audit and Assurance committee to enable them to be considered.



31. All Annual Audit Plans and the outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

32. 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 4](#).

33. We will work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with the Scottish Government over the course of the audit.

Exhibit 4 Proposed annual accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	31 May 2024
Issue draft annual audit report for clearance discussion	28 June 2024
Latest date for final clearance meeting with the Scottish Government	31 July 2024
Agreement of audited and unsigned annual accounts	16 August 2024
Issue of annual audit report, letter of representation and proposed independent auditor's report to those charged with governance	30 August 2024
Consideration of audited annual accounts and audit reporting by those charged with governance	To be confirmed – September 2024
Independent Auditor's Report signed	To be confirmed
Latest date for WGA assurance	To be confirmed

Source: Audit Scotland

Audit fee

34. In determining the audit fee, we have taken account of the risk exposure of the Scottish Consolidated Fund and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The audit fee for 2023/24 has been set at the baseline level of £26,030 (2022/23: £24,570).

35. In setting the fee for 2023/24, we have assumed that the Scottish Consolidated Fund has effective governance arrangements and will prepare a comprehensive and accurate set of annual accounts for audit in line with the agreed timetable for the audit together with full working papers. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Independence and objectivity

36. As the appointed auditor, I am independent of the Scottish Consolidated Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

37. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

38. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of the Scottish Consolidated Fund.

Audit Quality

39. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

40. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place.
- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team.

41. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

42. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

43. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

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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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