

Scottish Commission on Social Security

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Commission on Social Security

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of the Scottish Commission on Social Security (SCoSS). The main elements of our work include:

- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion 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
- reviewing the appropriateness of the disclosures in the governance statement and the financial sustainability of SCoSS.

Audit Appointment

2. We are pleased to be appointed as the external auditor of the Scottish Commission on Social Security for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to the Scottish Commission on Social Security through our external audit work by being constructive and forward looking, by attending meetings of the Audit Sub-Committee and by recommending and encouraging good practice. In so doing, we will help the Scottish Commission on Social Security promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and the Scottish Commission on Social Security

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Scottish Commission on Social Security. Key responsibilities are summarised below.

Auditor responsibilities

7. 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.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We will also comment on financial sustainability in the medium and longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability.

9. We will carry out work and conclude on the effectiveness of financial planning in identifying and addressing risks to financial sustainability. In doing this, we aim to support improvement and accountability.

The Scottish Commission on Social Security responsibilities

10. SCoSS is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

11. SCoSS 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

Introduction

12. The annual report and accounts are an essential part of demonstrating SCoSS's stewardship of resources and its performance in the use of those resources.

13. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

14. 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. We are required to plan our audit to determine with reasonable confidence 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 2022/23 audit

15. We assess materiality at different levels and the materiality values for SCoSS are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for the Scottish Commission on Social Security

Materiality	Amount
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 SCoSS's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the latest forecast presented to the board.	£8,000
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 should be considered. Using our professional judgement, we have assessed performance materiality at 50% of planning materiality.	£4,000

Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £400

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of SCoSS, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, attendance at committees and a review of supporting information.

17. 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 management and where relevant, report them to those charged with governance.

18. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This is the risk which has the greatest impact on our planned audit procedures. [Exhibit 2](#) 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 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	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 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>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance 	<ul style="list-style-type: none"> Review the design and implementation of controls over journal processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity. Test journals at the year-end and post-closing entries. Evaluate significant transactions outside the normal course of business.

Source: Audit Scotland

19. 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 as SCoSS does not generate any income.

20. 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 SCoSS because expenditure incurred by SCoSS is administered using well-established Scottish Government systems and controls. Furthermore, the nature of this expenditure is not complex with approximately 86 per cent of costs forecast to be spent on staff-related costs.

21. 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

22. As part of our assessment of audit risks, we have identified one other area where we consider there is a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep the area under review as our audit progresses.

23. The area of specific audit focus is:

- **Financial management:** The prior year audit identified a number of errors in the recording of expenditure and accruals. Accounting processes are under review, and we will continue to monitor developments in this area and carry out detailed testing at the year end to obtain assurance over the accuracy and completeness of expenditure and accruals.

Wider Scope and Best Value

Introduction

24. The [Code of Audit Practice](#) sets out the four areas 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 wider scope areas in audited 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 audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. We plan to apply these provisions of the Code to the 2022/23 audit of SCoSS in light of the low volume and lack of complexity of the financial transactions.

26. Our audit of the wider scope will include:

- **Financial sustainability** – We will consider the financial sustainability of SCoSS and the services it delivers over the medium to longer term.
- **Governance** – We will consider the effectiveness of the governance arrangements in place at SCoSS and review the governance statement. An audit sub-committee has been established and an audit advisor has recently been appointed to provide independent scrutiny and advice on audit matters. We will monitor the effectiveness of these new arrangements.

Duty of Best Value

27. [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 will carry out a high-level review to confirm that such arrangements are in place within SCoSS.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

29. 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 to confirm factual accuracy.

30. We will provide an independent auditor's report to SCoSS, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide SCoSS 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.

31. [Exhibit 3](#) outlines the target dates for our audit outputs.

Exhibit 3 2022/23 Audit outputs

Audit Output	Target date	Audit Sub-Committee Date
Annual Audit Plan	9 March 2023	16 March 2023
Independent Auditor's Report	9 November 2023	16 November 2023
Annual Audit Report	9 November 2023	16 November 2023

Source: Audit Scotland



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 proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

33. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working where appropriate. We will continue to work closely with

management to identify the most efficient approach and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management over the course of the audit.

Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	26 September 2023
Latest date for final clearance meeting with the Accountable Officer and Lead Secretary	13 October 2023
Agreement of audited and unsigned annual report and accounts	9 November 2023
Issue of Letter of Representation and proposed Independent Auditor's Report	9 November 2023
Issue of Annual Audit Report to those charged with governance	9 November 2023
Audit sub-committee consideration of audited and unsigned annual report and accounts	16 November 2023
Signed Independent Auditor's Report	To be confirmed

Source: Audit Scotland

Audit fee

34. In determining the audit fee, we have taken account of the risk exposure of SCoSS and the planned management assurances in place. The proposed audit fee for 2022/23 is £7,993 (2021/22: £6,120).

35. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

36. In setting the fee for 2022/23 we have assumed that SCoSS has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. 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

37. 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.

38. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

39. The appointed auditor for SCoSS is Lisa Duthie, Senior Audit Manager. 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 SCoSS.

Audit Quality

40. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

41. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

42. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

43. Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

44. 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.

Appendix 1. Your audit team

45. The audit team involved in the audit of SCoSS have significant experience in public sector audit.

Lisa Duthie
Senior Audit Manager
lduthie@audit-scotland.gov.uk

Lisa has over 14 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Marie McFadden
Senior Auditor
mmcfadden@audit-scotland.gov.uk

Marie has over 5 years of public sector audit experience and has considerable experience in planning and delivering audits. Marie will manage the team and work alongside the Senior Audit Manager and Auditor to deliver the audit.

Iram Younis
Auditor
iyounis@audit-scotland.gov.uk

Iram has considerable experience in planning and delivering audits. Iram will work alongside the Senior Audit Manager and Senior Auditor to deliver the audit.

46. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

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