

# Scottish Fiscal Commission

2021/22 Annual Audit Report



 AUDIT SCOTLAND

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

October 2022

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# Key messages

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## 2021/22 annual report and accounts

- 1 Our audit opinions on the annual report and accounts are unqualified and 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

- 5 The Scottish Fiscal Commission remained within its budget, reporting an underspend of £106,000 in 2021/22.
- 6 The Scottish Fiscal Commission has a medium-term financial plan but has yet to develop a longer-term plan.

## Governance

- 7 Disclosures in the Annual Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.
- 8 The Scottish Fiscal Commission's governance and transparency arrangements are appropriate.
- 9 The Governance Board and Audit and Risk Committee continued to meet on a remote basis throughout 2021/22 due to the ongoing Covid-19 pandemic.

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# Introduction

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**1.** This report summarises the findings from our 2021/22 audit of the Scottish Fiscal Commission.

**2.** The scope of our audit was set out in our 2021/22 Annual Audit Plan presented to the 17 February 2022 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of the Scottish Fiscal Commission's annual report and accounts
- our consideration of financial sustainability.

**3.** Like all public bodies, the global coronavirus pandemic has had an impact on the Scottish Fiscal Commission during 2021/22. This has resulted in changes to the work environment with all functions being delivered by home-working and remote meetings. There have been no substantive changes to the governance arrangements of the Scottish Fiscal Commission.

**4.** We reviewed our assessment of the key risks in advance of the year-end financial statement audit, and considered that our risk assessment remained relevant, and there were no new or emerging risks that affect our audit.

## Adding value through the audit

**5.** 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
- sharing intelligence and good practice through our national reports and good practice guides
- providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance and financial sustainability

**6.** 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

**7.** 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.

**8.** 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.

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

**10.** 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.

**11.** 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 2021/22 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2021/22 audit.

**12.** 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.

**13.** 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

**14.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**15.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 notional audit fee of £28,760, as set out in our 2021/22 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**16.** 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](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment from 2022/23

**17.** The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

**18.** The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Deloitte LLP will be the appointed auditor for the Scottish Fiscal Commission. We are working closely with the new auditors to ensure a well-managed transition.

**19.** A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

**20.** We would like to thank Board members, Audit and Risk Committee members, Executive Directors and other staff, particularly those in the Corporate Services team for their co-operation and assistance over the last five years.

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# Part 1. Audit of 2021/22 annual report and accounts

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

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## Main judgements

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

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

**21.** The annual report and accounts for the year ended 31 March 2022 were approved by the board on 12 October 2022. The Chief Executive signed the annual report and accounts the following day on 13 October 2022.

**22.** 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
- 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 submitted in line with the agreed timescales

**23.** The unaudited annual report and accounts were received in line with our agreed audit timetable on 18 July 2022. The working papers provided with the

unaudited financial statements were complete and of a good standard. The finance team 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 £38,000

24. 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 is summarised in [Exhibit 1](#).

### Exhibit 1

#### Quantitative materiality values

Materiality level	Amount
Overall materiality	£38,000
Performance materiality	£29,000
Reporting threshold	£2,000

Source: Annual Audit Plan 2021/22

25. In determining performance materiality, we considered the following factors:

- our understanding of the Scottish Fiscal Commission
- the nature and extent of any misstatements identified in previous audits
- any issues identified during the performance of risk assessment procedures.

26. The overall scope of the audit was adapted to incorporate the significant assessed risk of material misstatement included within [Exhibit 2](#).

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

27. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

28. 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.

29. We have no significant findings to report to the Audit and Risk Committee.



## We obtained assurances for the significant risk identified in our annual audit plan

**30.** We have obtained audit assurances over the identified significant risk of material misstatement to the financial statements. [Exhibit 2](#) sets out the significant risk of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over this risk and the conclusions from the work completed.

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### Exhibit 2 Significant risks from the audit of the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>International Standard on Auditing (UK) 240 requires that audits are planned to consider that management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. This is presumed to be a significant risk in all audits.</p>	<ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing, and test journals to focus on significant risk areas.</li> <li>Evaluate significant transactions outside the normal course of business.</li> <li>Assess accounting estimates, including any changes to the methods and underlying assumptions compared to the prior year.</li> <li>Substantive testing of expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>Focused testing of accruals and prepayments.</li> <li>Focused testing on accounting adjustments at the year end.</li> </ul>	<p><b>Results:</b> We did not identify any issues from our audit work that would indicate management override of controls affecting the financial statements.</p> <p><b>Conclusion:</b> <b>Satisfactory.</b></p>

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### Identified misstatements of £3,000 were adjusted in the accounts, these were less than our performance materiality and we did not need to revise our audit approach

**31.** Total misstatements identified were £3,000.

**32.** We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. We did not need to revise our audit approach.

**33.** Adjustments made in the audited accounts decreased net expenditure in the Statement of Comprehensive Net Expenditure by £3,000.

**34.** A further presentational adjustment in the Statement of Cash Flows increased cash flows for investing activities by £6,000 with a corresponding movement in cash flows for operating activities (trade and other payables line).

**35.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted for these identified misstatements above our reporting threshold; there are no unadjusted misstatements to report.

### **Good progress was made on prior year recommendations**

**36.** The Scottish Fiscal Commission has made good progress in implementing our prior year audit recommendation as detailed in [Appendix 1](#).

### **Updates were required to the internal controls checklist**

**37.** The Scottish Public Finance Manual model checklist is revised annually and was updated in late 2021/22. This introduced new areas in relation to business objectives, and delegated authority, skills and training, safeguarding assets and monitoring income. These new areas of risk have not yet been reflected in the Scottish Fiscal Commission's checklists. We note that when these were raised with the Scottish Fiscal Commission as part of the year end audit, they provided additional detail for these areas.

**38.** We would encourage the Scottish Fiscal Commission to monitor updates to the model internal control checklist to ensure the checklist used as part of its year-end processes is in line with both the SPFM and relevant to internal processes.

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## **Recommendation 1**

The Scottish Fiscal Commission should ensure that the model internal controls checklist used as part of the year-end process is the most recent version detailed in the Scottish Public Finance Manual.

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### **A reconciliation of the financial tracker was not completed consistently in year**

**39.** The Scottish Fiscal Commission uses a financial tracker is used to monitor both staff costs and non-pay expenditure.

**40.** We noted as part of our interim audit work that the financial tracker was not being reconciled consistently, nor was a secondary manager review taking place each month. This was discussed in year and noted that this was going to be actioned going forward.

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## **Recommendation 2**

The Scottish Fiscal Commission should ensure that the financial tracker is consistently reconciled and that a secondary manager review takes place and is evidenced.

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# Part 2. Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services

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## Main judgements

The Scottish Fiscal Commission remained within its budget, reporting an underspend of £106,000 in 2021/22.

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

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## Scottish Fiscal Commission operated within its 2021/22 budget and has an underspend of £106,000

**41.** 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 £1.899m remaining within its overall budget of £2.005m for 2021/22, with an underspend of £106,000. 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

**42.** 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.

**43.** The 2021/22 financial statements show that the Scottish Fiscal Commission has net liabilities of £147,000 (2020/21: £125,000). 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 2022/23 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 plan

**44.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**45.** 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.

**46.** Accordingly, the Scottish Fiscal Commission prepared its spending projections for the three years from 2022/23 to 2024/25 and submitted them to the Scottish Government in November 2021. Formal confirmation of the 2022/23 funding awarded and indicative funding for 2023/24 and 2024/25 was received from the Cabinet Secretary for Finance in March 2022.

**47.** 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.

**48.** 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.

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# Part 3. Governance and Transparency

Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

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## Main judgements

Disclosures in the Annual Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.

The Scottish Fiscal Commission's governance and transparency arrangements are appropriate.

The Governance Board and Audit and Risk Committee continued to meet on a remote basis throughout 2021/22 due to the ongoing Covid-19 pandemic.

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## Disclosures in the Annual Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance

**49.** 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.

**50.** 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. We confirmed that the accountable officer received assurances from members of the senior management team covering their areas of responsibility, including the internal delegation of smaller budget areas such as travel and subsistence.

**51.** We discussed some minor 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 2021/22 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 Scottish Fiscal Commission's governance and transparency arrangements are appropriate

**52.** 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.

**53.** As noted in the accountability report within the annual report and accounts, at 31 March 2022 there were four commissioners, one of whom was chair. There were no changes to these governance arrangements during 2021/22.

**54.** Following year-end, the appointments for the Chair and one commissioner ended. From 1 June 2022, Professor Graeme Roy has been appointed as chair, and Dr Domenico Lombardi as a new commissioner.

**55.** During 2021/22 Board and Committee meetings were held remotely using Microsoft Teams.

**56.** We have reviewed the minutes and papers submitted to the Governance Board throughout the year. The papers are detailed and comprehensive to allow for effective decision making and scrutiny of performance. The Board minutes are readily accessible on the Scottish Fiscal Commission's website.

**57.** We attend the Audit and Risk Committee meetings, and papers are circulated to members in a timely manner in advance of meetings for review. From our attendance at the Committee, we observed and concluded that members are engaged during meetings and provide effective scrutiny and challenge.

**58.** Additionally, the Chair of the Audit and Risk Committee provides a verbal update on key issues discussed at each meeting of the Board and these updates are recorded as part of the Board minutes.

## The performance report is of a good quality

**59.** 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 fully complied with the requirements of the 2021/22 Government Financial Reporting Manual (FReM).

**60.** 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.

**61.** We noted that management have built on the improvements to the presentation of the performance report noted last year, including a greater use of infographics. 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.

### **A new corporate plan 2022-2025 was introduced**

**62.** The corporate plan was published on the Scottish Fiscal Commission's website in April 2022 and sets out the Commission's values and four strategic objectives over this three-year period:

- Provide robust, independent, official forecasts of Scotland's economy, devolved tax revenues and social security spending
- Explain what our forecasts and analysis mean for the Scottish Budget
- Analyse and explain the medium- and longer-term risks to the Scottish Budget
- Be an effective and efficient organisation with skilled, knowledgeable people

**63.** The plan provides an overview of outputs the Commission produces, and how these are used to measure progress against the above strategic objectives.

### **National performance audit reports**

**64.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 2](#) highlights a number of the reports published in 2021/22.



# Appendix 1. Action plan 2021/22

## 2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Internal Controls Checklist</b></p> <p>We identified that new areas of risk in the Scottish Public Finance Manual model checklist, which is updated annually, had not yet been reflected in the Scottish Fiscal Commission's checklists used in 2021/22.</p> <p><b>Risk</b> – If an outdated checklist is used, there is a risk that year-end processes are not in line with the SPFM and an emerging area of risk is not addressed.</p>	<p>The Scottish Fiscal Commission should ensure that the model internal controls checklist used as part of the year-end process is the most recent version detailed in the Scottish Public Finance Manual.</p> <p><a href="#">Paragraph 38</a></p>	<p>The internal control checklist was reviewed and updated as per the model checklist in the Scottish Public Finance Manual, and shared with Audit Scotland.</p> <p>Before future annual updates, the Commissioner internal control checklist will be reviewed against the model checklist for any updates or changes.</p> <p><b>Governance Manager Completed</b></p>
<p><b>2. Financial Tracker Reconciliation</b></p> <p>We noted as part of our interim audit work that the financial tracker was not being reconciled consistently, nor was a secondary manager review taking place each month.</p> <p><b>Risk</b> – There is a risk that non-pay expenditure is not reconciled to the general ledger, and that the risk of not detecting fraud or errors is therefore increased.</p>	<p>The Scottish Fiscal Commission should ensure that the financial tracker is consistently reconciled and that a secondary manager review takes place and is evidenced.</p> <p><a href="#">Paragraph 39-40</a></p>	<p>Due to staffing changes, reconciliation of the financial tracker had not been completed as consistently as planned. However, there was a secondary, reconciliation review of the financial tracker as part of the preparation for the Annual Audit field work.</p> <p>Reconciliations and secondary review will be undertaken more consistently in 2022-23.</p> <p><b>Governance Manager Completed</b></p>

## Follow up of prior year recommendation from the 2020/21 Annual Audit Report

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Preparing and authorising journals (2020/21 AAR)</b></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><b>Risk:</b> 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>Journals testing during 2021/22 did not identify any incorrect or duplicate postings.</p> <p>A separate issue has been raised above regarding the financial tracking spreadsheet.</p> <p><b>Completed</b></p>

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# Appendix 2. Summary of 2021/22 national performance reports and briefing papers

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## May

[Local government in Scotland Overview 2021](#)

## June

[Covid 19: Personal protective equipment](#)

## July

[Community justice: Sustainable alternatives to custody](#)

## September

[Covid 19: Vaccination programme](#)

## January

[Planning for skills](#)

[Social care briefing](#)

## February

[NHS in Scotland 2021](#)

## March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

# Scottish Fiscal Commission

## 2021/22 Annual Audit Report

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](http://www.audit-scotland.gov.uk/accessibility)



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