

Scotland Excel

To: Executive Sub-Committee

On: 17 March 2023

**Report by:
The Treasurer**

Report on the Annual Audit Plan 2022/23

1. Summary

- 1.1 The Annual Audit Plan 2022/23 for Scotland Excel is submitted for Members' information, prepared by the appointed external auditor, Azets. It outlines their planned activities during the audit of the 2022/23 annual accounts.

2. Recommendations

- 2.1 It is recommended that the Executive Sub-Committee:
- a) notes the Annual Audit Plan 2022/23 by Azets, as attached; and
 - b) approves the proposed audit fee of £10,510.

3. Background

- 3.1 Based on its analysis of the risks facing Scotland Excel, Azets has submitted an Audit Plan that outlines its approach to the audit of the 2022/23 annual accounts. This will assess whether the accounts provide a true and fair view of the organisation's financial position, and also whether they have been prepared in accordance with proper accounting practice, i.e. the Code of Practice on Local Authority Accounting in the UK 2022/23.
- 3.2 The Audit Plan outlines the responsibilities of Scotland Excel and of Azets; its assessment of key challenges and risks and the approach and timetable for completion of the audit. The risks identified here are included in the audit plans of many bodies that Azets work with and their inclusion is not a reflection of any specific risk within Scotland Excel.
- 3.3 The statutory deadline for the approval of the audited accounts for 2022/23 is 30 September 2023 and the annual audit report is planned to be reported to the Executive Sub-Committee on 15 September 2023.

- 3.4 On pages 21-22 of the Audit Plan, the proposed audit fee is detailed. This is indicated at £10,510 for the current financial year and represents a local increase above the 12.5% uplift set by Audit Scotland for 2022/23.
- 3.5 Within the terms of the Audit Scotland appointment, local audit teams have discretion to vary the fee by up to 10% above the level set depending on the level of identified audit risk. This proposed higher fee reflects the additional work required in the first year of a new audit appointment.
- 3.6 From Azets, Senior Manager, Adrian Kolodziej will be in attendance at the meeting to present the Audit Plan, attached here as an appendix.



Scotland Excel

External Audit Annual Plan 2022/23

March 2023



Table of Contents

Introduction	3
Audit scope and general approach	4
Significant and other risks of material misstatement	11
Wider scope	15
Your Azets audit management team	18
Audit timetable	19
Audit fee	21
Audit independence and objectivity	23
Appendix 1: Responsibilities of the Auditor and Scotland Excel	24
Appendix 2: Potential impact on Scotland Excel and our audit approach following revisions to auditing standards	31
Appendix 3: Materiality	34

Introduction

Azets have been appointed by Audit Scotland as the external auditor to Scotland Excel for the period 2022/23 to 2026/27.

This document summarises the work plan for our 2022/23 external audit of Scotland Excel.

The core elements of our work include:

- An audit of the 2022/23 annual accounts and related matters;
- Consideration of the wider scope areas of public audit work as they apply to less complex bodies;
- Any other work requested by Audit Scotland.

We expect that our audit will have a similar underlying approach to that of your previous external auditor, Audit Scotland, although there are some changes to the Code of Audit Practice and auditing standards that come into effect for the first time in 2022/23, which are reflected in this document.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We will add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

Openness and transparency

This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Audit scope and general approach

Responsibilities of the auditor and Scotland Excel

The [Code of Audit Practice](#) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code of Audit Practice and guidance from Audit Scotland.

Scotland Excel has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. Scotland Excel is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

Appendix 1 provides further detail of both our responsibilities and those of Scotland Excel.

Risk-based audit approach

We follow a risk-based approach to the audit that reflects our overall assessment of the relevant risks that apply to Scotland Excel. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

Discussions with senior officers	Our understanding of the sector, its key priorities and risks	Attendance at the Executive Sub-Committee
Guidance from Audit Scotland	Discussions with Audit Scotland and other public sector auditors	Consideration of the work of internal audit
Review of Scotland Excel's corporate strategies and plans	Review of Scotland Excel's corporate risk register	Outcomes of prior year audits

Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise.

Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through Scotland Excel Executive Sub-Committee.

Professional standards and guidance

We perform our audit of the financial statements in accordance with International Standards on Auditing UK (ISAs (UK)), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Internal Audit

As part of our audit, we consider the scope and nature of internal audit work and look to minimise duplication of effort, to ensure the total audit resource to Scotland Excel is used as efficiently and effectively as possible.

Service organisations

Renfrewshire Council (“the Council”) is the lead administrative authority for Scotland Excel, providing Treasurer and Clerk roles, as well as other service support, such as payroll, ICT, legal and HR. Where those services (and associated systems) have a material impact on the annual accounts we will work with the Council to understand the controls in place over the systems used in delivering these services.

Delivering the audit – post pandemic

Hybrid audit approach

We intend to adopt a hybrid approach to our audit which combines on-site visits with remote working; learning from the better practices developed during the pandemic.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information.

All of our staff are fully contactable by email, phone call and video-conferencing.

Meetings can be held over Skype, Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

Regular contact

During the 'fieldwork' phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Signing annual accounts

Audit Scotland recommends the electronic signing of annual accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location and there is no longer a need for duplicate copies to be signed.

Approach to audit of the annual accounts

Our objective when performing an audit of the annual accounts is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our general approach, we will:

- perform risk assessment procedures including updating our understanding of the entity and its environment, the financial reporting framework and system of internal control;
- review the design and implementation of key internal controls;

- identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances or disclosures;
- design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

Key audit developments in 2022/23

Revised auditing standards¹, which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The in-depth nature of these additional procedures, as well as updated tools and techniques that may come into scope, will also offer additional opportunity to provide insights and constructive feedback on the way Scotland Excel manages risks. Appendix 2 provides further details on the implications of these new requirements.

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected

¹ Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement in the financial statements and ISA (UK) 240 on material misstatements caused by fraud came into effect for audits of financial statements with periods commencing on or after 15 December 2021.

misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

The basis for our assessment of materiality is set out in Appendix 3.

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work is not for the purpose of expressing an opinion on the effectiveness of internal controls.

We will report to Scotland Excel, significant deficiencies in internal controls that we identify during the audit. These matters will be limited to those which we conclude are of sufficient importance to merit being reported. The scope of our work is not designed to be an extensive review of all internal controls.

Specialised skill or knowledge required to complete the audit procedures

Our intended audit approach is to consult internally with our Technology Risk team for them to support the audit team in assessing the information technology general controls (ITGC).

Going concern

The concept of going concern applies in the public sector but in a different way to the private sector. In many public sector entities (but not all), the use of going concern basis of accounting is not a significant matter because the applicable financial reporting framework envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For many public sector entities, the financial sustainability of the entity is more likely to be of significant public interest than the application of the going concern basis.

Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if he knows or suspects that any person has engaged in money laundering or terrorist financing. Audit Scotland has extended this responsibility to the Accounts Commission in respect of local government.

We require Scotland Excel to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Wider scope audit work

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability. Appendix 1 provides detail of the wider scope areas of public sector audit work.

The Code of Audit Practice provides for the Accounts Commission to specify an alternative audit approach where an audited body might be considered less complex due to its size and its limited financial activity.

We have concluded, based on an assessment of the nature and circumstances of Scotland Excel, that a limited wider scope audit is appropriate. Our audit will be limited to:

- A review of the Annual Governance Statement

- Concluding on the financial sustainability of Scotland Excel and the services it delivers over the medium to longer term.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of Scotland Excel's best value arrangements will be integrated into our audit approach, including our work on the wider scope areas as set out in this plan.

We will review Scotland Excel's governance arrangements and consider how Scotland Excel demonstrates and reports that it has Best Value arrangements in place to secure continuous improvement.

Significant and other risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
<p>Management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p> <p>Risk of material misstatement: Very High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals; • Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals; • Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for

Identified risk of material misstatement	Audit approach
	<p>appropriateness, corroboration and to ensure approval has been undertaken in line with Scotland Excel's journals policy;</p> <ul style="list-style-type: none"> • Gaining an understanding of the accounting estimates and critical judgements made by management. We will challenge assumptions and consider the reasonableness and indicators of bias which could result in material misstatement due to fraud; and • Evaluating the rationale for any changes in accounting policies estimate or significant unusual transactions.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

The table below summarises significant risks of material misstatement assertion level for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
<p>Fraud in revenue recognition</p> <p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements).</p> <p>The presumption is that Scotland Excel could adopt accounting policies or recognise income in such a way as to lead to a material</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluation the significant income streams and review the controls in place over accounting for revenue. • Consideration of Scotland Excel's key areas of income and obtaining evidence that income is recorded in line with appropriate accounting

Identified risk of material misstatement	Audit approach
<p>misstatement in the reported financial position.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present in requisitions received from the member authorities due to a lack of incentive and opportunity to manipulate transactions.</p> <p>Inherent risk of material misstatement:</p> <p>Revenue (occurrence / completeness): High</p>	<p>policies and the policies have been applied consistently across the year.</p>
<p>Fraud in non-pay expenditure</p> <p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Non-pay expenditure (occurrence / completeness): High 	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating the significant non-pay expenditure streams and reviewing the controls in place over accounting for expenditure. • Consideration of Scotland Excel's key areas of expenditure and obtaining evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Identified risk of material misstatement	Audit approach
<ul style="list-style-type: none"> • Accruals (existence / completeness): High 	
<p>Pension asset / liability (key accounting estimate)</p> <p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities.</p> <p>A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation, and mortality rates) can have a material impact on the pension asset/liability.</p> <p>There is a risk that the assumptions used are not appropriate.</p> <p>Inherent risk of material misstatement:</p> <p>Pensions (valuation): High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Review of the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. • Reviewing the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreeing the disclosures in the financial statements to information provided by the actuary. • Considering the competence, capability and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.

Wider scope

As described previously, the Code of Audit Practice frames a significant part of our audit responsibilities. Following consideration of the size, nature and risks of Scotland Excel, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work will therefore be restricted to:

- A review of the Annual Governance Statement
- Concluding on the financial sustainability of Scotland Excel and the services it delivers over the medium to longer term.

Our planned audit work against these two areas is risk based and proportionate. Our initial assessment builds upon our understanding of Scotland Excel's key priorities and risks, along with discussions with management and review of Scotland Excel minutes and key strategy documents.

At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit as set out in the table below.

Audit planning however is a continuous process. We will report any other identified significant risks in our annual audit report.

Financial sustainability	Audit approach
<p>In December 2022 the Joint Committee considered its revenue budget for 2023/24 and indicative budget estimates for the subsequent two years to 2025/26.</p> <p>Scotland Excel is estimating a break-even position for core activities at the end of 2022/23 and uncommitted reserves level of £246k. This level of reserves represents 5% of estimated operating income and is treated as a minimum level required for unforeseen cost.</p> <p>The main cost driver is staff expenditure which is expected to increase over the period of the estimate by 3% each year and represents c.83% of total core activity cost. This cost is more variable for Projects, where staffing levels scale according to the level of project activity each year.</p>	<p>We will review Scotland Excel's arrangements for managing its financial position. Our work will include an assessment of progress made in developing financially sustainable plans which support the delivery of Scotland Excel's statutory functions and strategic objectives.</p>

Financial sustainability	Audit approach
<p>The local authorities' requisitions in 2023/24 will increase by 3%, but any potential future increases beyond that year are yet to be considered and agreed. Increases of the same level for the further two years of the forecast would create a deficit position in each of these years. If the uncommitted reserves were to be used to cover the deficits the core reserves would reduce to £75k at the end of 2025/26 (or 1.4% of the operating income).</p> <p>Such a low level of core uncommitted reserves could make the financial position of Scotland Excel more difficult to manage over the short and medium term.</p> <p>There is a level of uncertainty in the above estimates due to:</p> <ul style="list-style-type: none"> • Indirect dependence on the Scottish Government annual allocation of funding to local authorities who in turn fund Scotland Excel activities through their requisitions. The funding levels from the Scottish Government beyond 2023/24 are uncertain and impacted by wider economic factors in Scotland. • Unpredictability of the projects and rebates income; although Scotland Excel assumes the projects income will represent c.20% of the cost in each of the three years of the financial forecast; • Scotland Excels faces cost pressures, particularly in its staff cost which make up 83% of its core activities expenditure. While the most recent Bank of England's expectation is that the inflation will fall to 4% at 	

Financial sustainability	Audit approach
<p>the calendar year-end, the current levels are still high and around 10%.</p> <p>Scotland Excel's medium to longer term financial planning is therefore challenging due to the wider economic environment and local government funding uncertainties. With the current estimates in place the reserves position at the end of 2025/26 will allow less flexibility when responding to any unforeseen cost.</p>	

Your Azets audit management team

The external audit team will be led by Gary Devlin and managed by Adrian Kolodziej.

Gary Devlin: Engagement Lead

gary.devlin@azets.co.uk

Gary is the partner in charge of our audit of Glasgow and Scotland Excel. Gary has over 20 years' experience in local government auditing and also leads our external audit appointment to Renfrewshire Council.



Adrian Kolodziej: Engagement Manager

adrian.kolodziej@azets.co.uk

Adrian will manage the delivery of the onsite work and work alongside Gary to deliver the audit engagement. Adrian has over 14 years of public sector experience performing the external audits of local authorities, central government and further education bodies.



Audit timetable

The submission date for audited annual accounts in local government is generally set to be consistent with the date specified in the accounts regulations by which Scotland Excel is required to approve its audited accounts. The Coronavirus (Scotland) Act 2000 permitted a deferral in 2019/20 and 2020/21 to 30 November, and a temporary amendment to the accounts regulations allowed a submission date of 31 November for 2021/22. However, the submission date is returning to pre-pandemic 30 September for 2022/23.

We have set out below target months which align to the schedule of Scotland Excel meetings. We aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues.

Audit work/output	Description	Target month/s	Executive Sub-Committee	Deadline
Audit plan	Audit plan setting out the scope of our audit, including key audit matters, presented to Scotland Excel.	February	17 March 2023	31 March 2023
Interim audit	Interim audit including review of accounting systems.	March - April	N/A	N/A
Final audit	Accounts presented for audit and final audit visit begins	July - September	TBC	30 September 2023
Independent Auditor's Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and	September	15 September 2023	30 September 2023

Audit work/ output	Description	Target month/s	Executive Sub- Committee	Deadline
	management commentary.			
Annual Report to Scotland Excel and the Controller of Audit	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	September	15 September 2023	30 September 2023

Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.

The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

For 2022/23, the new appointment process provided Audit Scotland with a fair representation of the current audit market for each individual body with the outcome of this exercise highlighting the increasing requirements, expectations and scrutiny of the audit profession.

The quality of audit work is an essential requirement in successfully delivering a fully compliant ISA and Code of Audit Practice audit. These factors have led to above inflationary increases in the cost of audit. Whilst these increases are significant these are consistent with evidence obtained from the profession and other UK audit agencies. On setting fees, Audit Scotland has ensured that efficiencies have been fully utilised to mitigate the impact.

For the local government sector, the average fee increase is 12.5%.

Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.

As auditors we negotiate a fee with Scotland Excel during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

For 2022/23, we propose setting the audit fee at c.15% above the expected base fee level. This reflects the level of work we consider is required in the first year of the audit and our response to the key audit matters identified in this document.

	2022/23	2021/22
Auditor remuneration	£24,380 (base is £21,230)	£5,460
Pooled costs	-	£570
Audit support costs	£800	£290
Sectoral cap adjustment	(£14,920)	-
Total fee	£10,510	£6,320

We will take account of the risk exposure of Scotland Excel and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

Audit independence and objectivity

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets has not been appointed by Scotland Excel to provide any non-audit services during the year.

We confirm that we comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and Scotland Excel, its members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 1: Responsibilities of the Auditor and Scotland Excel

The Accounts Commission, Controller of Audit and Audit Scotland

The Accounts Commission is an independent public body. Its members are appointed by Scottish Ministers and are responsible for holding local government to account.

Under statute, the Accounts Commission appoints a Controller of Audit to consider the results of the audit of accounts, including the wider-scope responsibilities and Best Value auditing. The Controller of Audit makes reports to the Accounts Commission on matters arising from the accounts and on Best Value and acts independently of the Accounts Commission when reporting to it.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The [2021 Code](#) came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to Scotland Excel and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management



Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance



Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes



Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Limited wider scope audit work

The Code of Audit Practice provides for the Accounts Commission to specify an alternative audit approach where an audited body might be considered less complex due to its size and its limited financial activity.

We have concluded, based on an assessment of the nature and circumstances of Scotland Excel, that a limited wider scope audit is appropriate. Our audit will be limited to:

- A review of the Annual Governance Statement

- Concluding on the financial sustainability of Scotland Excel and the services it delivers over the medium to longer term.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of Scotland Excel's best value arrangements will be integrated into our audit approach, including our work on the wider scope areas as set out in this plan.

We will review Scotland Excel's governance arrangements and consider how it demonstrates and reports that it has Best Value arrangements in place to secure continuous improvement.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

Scotland Excel responsibilities

Scotland Excel has 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 enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	Scotland Excel responsibilities
Corporate governance	<p>Scotland Excel is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements and related reports	<p>Scotland Excel has responsibility for:</p>
	<ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable.
<p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p>	

Area	Scotland Excel responsibilities
	<p>Scotland Excel is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. Scotland Excel is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
Standards of conduct for prevention and detection of fraud and error	<p>Scotland Excel is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
Financial position	<p>Scotland Excel is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
Best value	<p>Scotland Excel has a specific responsibility to make arrangements to secure Best Value. Best Value is defined as continuous improvement in the performance of the body's functions. In securing Best Value, the local government body is required to maintain an appropriate balance among:</p>

Area	Scotland Excel responsibilities
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- The quality of its performance of its functions
- The cost to the body of that performance
- The cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.

In maintaining that balance, Scotland Excel shall have regard to:

- Efficiency
- Effectiveness
- Economy
- The need to meet the equal opportunity requirements.

Scotland Excel should discharge its duties in a way which contributes to the achievement of sustainable development.

Appendix 2: Potential impact on Scotland Excel and our audit approach following revisions to auditing standards

Revised auditing standards which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The table below provides further detail on the implications of these new requirements.

Key change	Potential impact on Scotland Excel & our approach
Enhanced risk identification and assessment, promoting more focused auditor responses to identified risks	<p>Management and those charged with governance may receive more up-front questions as we plan the audit and identify and assess risks of material misstatement.</p> <p>We may conduct planning and risk assessment procedures at a different time to ensure that our understanding is comprehensive, and that information is leveraged effectively and efficiently.</p> <p>To facilitate a more robust risk-assessment, we may request additional information to enhance our understanding of systems, processes and controls. For example, we may request:</p> <ul style="list-style-type: none"> • a better understanding of Scotland Excel's structure and operations and how it integrates information technology (IT) • more information about Scotland Excel's processes for assessing risk and monitoring its system of internal control

Key change	Potential impact on Scotland Excel & our approach
	<ul style="list-style-type: none"> • more detailed narratives about how transactions are initiated, recorded, processed and reported • policies and procedure manuals, flowcharts and other supporting documentation to validate our understanding of the information systems relevant to the preparation of the financial statements • more information to support our inherent risk assessment. <p>This information not only informs our risk assessment but also assists us in determining an appropriate response to risks identified, including any new significant risks which require a different response.</p>
Understanding and acting on risks associated with IT	<p>We will be asking tailored questions and making information requests to understand the IT environment, including:</p> <ul style="list-style-type: none"> • IT applications • supporting IT infrastructure • IT processes • personnel involved in the IT processes. <p>Combined with the controls that may be needed to address the identified and assessed risks of material misstatement, this understanding may also identify existing and new risks arising from the use of IT. Therefore, we will be asking more focused questions and requesting additional information to understand the general IT controls that address such risks. For example, we may have questions in relation to general IT controls over journal entries (e.g., segregation of duties related to preparing and posting entries) to address risks arising from the use of IT.</p> <p>Depending on our assessment of the complexity of systems and associated risks, we may also involve additional team members, such as IT specialists.</p>
Enhanced procedures in connection with fraud	<p>We will be asking targeted questions as part of an enhanced approach to fraud, including discussing with Scotland Excel:</p> <ul style="list-style-type: none"> • any allegations of fraud raised by employees or related parties

Key change	Potential impact on Scotland Excel & our approach
	<ul style="list-style-type: none"> the risks of material fraud, including those specific to the local government sector. <p>Combined with other information, and any inconsistencies in responses from those charged with governance and management, we determine implications for further audit procedures. Work in connection with fraud may also now include the use of audit data analytics, or the inclusion of specialists in our engagement team to ensure we obtain sufficient appropriate audit evidence to conclude whether the financial statements are materially misstated as a result of fraud.</p> <p>In addition to existing communication and reporting requirements relating to irregularities and fraud, there may be further matters we report in connection with management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.</p> <p>These enhanced requirements may assist in the prevention and detection of material fraud, though do not provide absolute assurance that all fraud is detected or alter the fact that the primary responsibility for preventing and detecting fraud rests with Scotland Excel and management.</p>
Enhanced requirements for exercising professional scepticism	<p>Challenge, scepticism and the application of appropriate professional judgement are key components of our audit approach. You may receive additional inquiries if information is found that contradicts what our team has already learned in the audit or in instances where records or documents seen in the course of the audit appear to have been tampered with, or to not be authentic.</p>
Using the right resources, in the right way, at the right time	<p>One of our new strategic quality objectives sets out that we will strive to use the right resource, in the right way, at the right time. This may mean increasing the use of specialists (for example in relation to general IT controls) or changing the shape of the audit engagement team to ensure that we are able to provide appropriate challenge and feedback in specialist areas.</p> <p>This will include appropriate use of technology, including data analytics.</p>

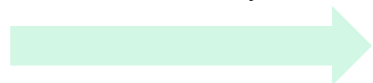
Appendix 3: Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to Scotland Excel and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Materiality

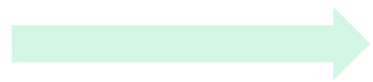
Overall materiality



£148,000

Accounts materially misstated where total errors exceed this value

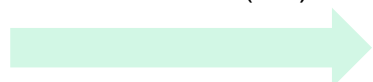
Performance materiality (75%)



£111,000

Work performed to capture individual errors at this level

Trivial threshold (5%)



£7,400

All errors greater than this level are reported

Materiality

Our assessment is made with reference to Scotland Excel's gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance.

Our assessment of materiality equates to approximately 2% of Scotland Excel's gross expenditure as per the 2021/22 audited accounts.

In performing our audit, we apply a lower level of materiality to the audit of the Remuneration Report. Our materiality is set at £5,000.

**Performance
materiality**

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

**Trivial
misstatements**

Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

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