



# Scottish Qualifications Authority

Annual audit report to the Board of Management of  
Scottish Qualifications Authority and the Auditor General  
for Scotland

Audit: year ended 31 March 2016

31 August 2016

# Contents



## 1. EXECUTIVE SUMMARY



## 2. FINANCIAL POSITION



## 3. FINANCIAL STATEMENTS AND RELATED REPORTS



## 4. WIDER SCOPE



## 5. APPENDICES

### About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Scottish Qualifications Authority ("SQA") and is made available to Audit Scotland and the Auditor General (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

### Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to SDS, telephone 0131 527 6673 email: [andrew.shaw@kpmg.co.uk](mailto:andrew.shaw@kpmg.co.uk) who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to [alex.sanderson@kpmg.co.uk](mailto:alex.sanderson@kpmg.co.uk). We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

# Executive summary

### Audit conclusions

- We have issued an unqualified audit opinion on the financial statements of Scottish Qualification Authority ('SQA').

### Financial position

- SQA reported net expenditure of £27.4 million in 2015-16 (2014-15 £24.5 million), with £23.3 million grant funding income (2014-15 £21.4 million), resulting in a current year deficit of £4.1 million 2014-15 £3.1 million. After adjusting for IAS 19 pension service costs in excess of cash contributions, the current year operating deficit was £0.7 million (2014-15: deficit of £0.8 million). Pages 6 – 7
- The 2016-17 budget shows a challenging position, reflecting the impact of financial pressures. These include: core grant-in-aid remaining at £1.8 million; wage and supplier price inflation; and the fixed charge National Qualifications pricing structure with local authorities. We concur with management's conclusion that SQA is a going concern given the expectation of further funds from the government. Pages 8 – 10

### Financial statements and related reports

- We have concluded satisfactorily in respect of each significant risk and audit focus area identified in the audit strategy and plan document. We concur with management's accounting treatment and judgments. We have no matters to highlight in respect of: adjusted and unadjusted audit differences; independence; and changes to management representations. Pages 12 – 19
- There were two specific matters which were considered during our subsequent events procedures. One was in relation to a bad debt provision for £1.4 million for a Saudi debt, confirming that the related debt was not recovered post year end. The second matter related to a possible claim from a supplier whose contract was not renewed. The supplier contacted SQA in June 2016 stating a possible liability relating to 2015-16 year and prior years. Management is seeking information to consider the validity and will present evidence to show it did comply with the contract. We concur that the treatment in the financial statements for both matters remains appropriate at the date of the audit opinion.

### Wider scope matters

- We considered the wider scope audit dimensions and concluded positively in respect of financial management, value for money and governance and transparency. Pages 22 – 26
- We note risks in relation to financial sustainability due to the nature of funding. The fixed price arrangement with local government has been kept in place past August 2016 and major contracts such as dangerous goods handling is being put to tender. Page 25

#### Purpose of this report

The Auditor General for Scotland (“the Auditor General”) has appointed KPMG LLP as auditor of SQA under the Public Finance and Accountability (Scotland) Act 2000 the Act”. The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at SQA and the Auditor General. The scope and nature of our audit were set out in the audit strategy document which was presented to the audit and risk committee at the outset of the audit.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial management and sustainability, governance and transparency and value for money.

#### Accountable officer responsibilities

The Code sets out SQA’s responsibilities in respect of:

- preparation of financial statements that show a true and fair view;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

#### Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix one sets out how we have met each of the responsibilities set out in the Code.

#### Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

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

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This annual audit report to directors and our presentation to the audit and risk committee, together with previous reports to the audit and risk committee throughout the year, discharges the requirements of ISA 260.

# Financial position

### Financial position

Total net expenditure was £27.4million in 2015-16, with £23.3 million total grant funding income, which resulted in a deficit of £4.1 million before an actuarial gain.

The 2015-16 deficit of £4.1 million compares to a £3.1 million deficit in the year to 31 March 2015. £3.4 million (2014-15: £2.3 million) of the deficit relates to IAS 19 pension costs in excess of the cash contributions.

### Statement of comprehensive net expenditure

The key movements in income and expenditure compared to 2014-15:

- Staff costs increased by £2 million from greater staff numbers and IAS 19 charges, as shown opposite. The full time equivalent total employees rose from 894 to 914 during 2015-16, in order to ensure successful delivery of the CfE programme and to deliver other contract activity. In addition, and in line with Scottish Government pay policy, a pay award of 2.58% was implemented.

- Other expenditure includes appointee related expenditure and other operating costs. Appointee related expenditure increased by £1.86 million in 2015-16; in the year a new qualification was introduced (New Highers) which ran alongside the old higher qualification. This increased appointee fees is due to the increased hours required to cover the exams. A new exam structure, resulting in more projects as part of assessment, also increased marking time.

2015-16 costs include a non-recurring charge of £1.4 million, being the recognition of a bad debt provision in relation to a contract in Saudi Arabia (see page seven).

- There was a small increase in entry charge income arising from greater uptake of qualifications. Other income increased by £1.86 million; reflection a £2 million increase in Consultancy, Secondments & Research offset by a decrease in Commercial Testing Services and Miscellaneous Income
- Grant funding increased by £1.9 million, in respect of grant in aid of £7.4 million.

Consolidated statement of comprehensive income	2015-16 £000	2014-15 £000	Variance £000
Staff costs	(36,238)	(34,205)	(2,033)
Depreciation and impairment	(1,364)	(2,149)	785
Other expenditure	(41,496)	(37,986)	(3,510)
<b>Total expenditure</b>	<b>(79,098)</b>	<b>(74,340)</b>	<b>(4,868)</b>
Entry charges	41,838	41,577	261
Other income	10,851	8,991	1,860
<b>Total income</b>	<b>52,689</b>	<b>50,568</b>	<b>2,121</b>
<b>Net expenditure</b>	<b>(26,409)</b>	<b>(23,772)</b>	<b>(2,637)</b>
Interest payable	(961)	(721)	(240)
<b>Total net expenditure</b>	<b>(27,370)</b>	<b>(24,493)</b>	<b>(2,877)</b>
Grant funding received	23,268	21,395	1,873
<b>Deficit</b>	<b>(4,102)</b>	<b>(3,098)</b>	<b>(1,004)</b>
<i>Split as:</i>			
Operating deficit	(687)	(799)	112
IAS 19 costs in excess of cash contributions	(3,415)	(2,299)	(1,116)

Source: KPMG analysis of SQA financial statements 2015-16

### Financial position: statement of financial position

The decrease in non-current assets of £0.2 million is a result of the depreciation charge for the year of £0.6 million, amortisation of £0.8 million offset by additions of around £1 million. Additions relate partly to the new ledger system.

Trade and other receivables decreased by £0.2 million; this represents £0.4 million higher prepayments and an increase in trade receivables of £0.5 million offset by a £1.4 million increase in bad debt provision. The provision is due to the uncertainty around the recovery of a Saudi debt. The debt has been outstanding since April 2015 and despite continued efforts by management has not been recovered. Given the continued non-payment, management concluded that a bad debt provision is necessary.

The outstanding debt gave rise to a shortfall in working capital, and £1.4 million grant in aid was advanced to SQA from the 2016-17 allocation.

### Liabilities

There was an increase in trade and other payables of £0.37 million compared to the prior year. This represents an increase in accruals and deferred income of £0.6 million, less £0.2 million fall in trade payables. Included within accruals and deferred income is the CfE entry charge income accrual required to recognise income in line with diet completion rather than on a fixed cash basis.

Other current liabilities reduced by £0.4 million; this comes from the removal of an indirect tax provision balance from the prior year.

The decrease in net liabilities from the prior year is primarily due to the lower retirement benefit obligation. Consideration of the pension assumptions and key movements is provided on page 32.

Consolidated statement of financial position	2016 £000	2015 £000	Variance £000
Non current assets	5,135	5,324	(189)
Trade and other receivables	23,653	23,846	(193)
Cash and cash equivalents	2,515	2,856	(341)
<b>Total assets</b>	<b>31,303</b>	<b>32,026</b>	<b>(723)</b>
Retirement benefit obligations	(16,114)	(28,331)	(12,217)
Trade and other payables	(10,699)	(10,330)	369
Other current liabilities	(432)	(842)	(410)
<b>Total liabilities</b>	<b>(27,245)</b>	<b>(39,503)</b>	<b>(12,060)</b>
<b>Net assets/(liabilities)</b>	<b>4,058</b>	<b>(7,477)</b>	<b>11,337</b>



### Financial plans 2016-17

The 2016-17 budget assumes additional grant in aid of £12.3 million, and core grant in aid of £1.8 million. This large level of additional funding reflects the move from programme grant to 'business as usual' funding, given the consistent nature of SQA's activities. The additional need is after further savings delivered by SQA; the budget assumes £0.5 million savings, which management is confident will be delivered.

As in previous years, SQA requires the additional funding from the Scottish Government to support the safe delivery of CfE. The Scottish Government has expressed its intention to work with SQA to secure delivery.

The 2016-17 budget was prepared in line with the objectives set out in the 2015-18 corporate plan to maintain levels of service, efficiency and quality while continuing to focus on delivering the CfE programme.

Entry charges are forecast to decrease in 2016-17, following an extension to the fixed price arrangement with local authorities, which was expected to be changed from 2016-17; given it has not been amended to reflect SQA's activities and volume since originally agreed.

Other income is budgeted to increase by £1.2 million compared to the 2015-16 budget, based on overseas contract successes.

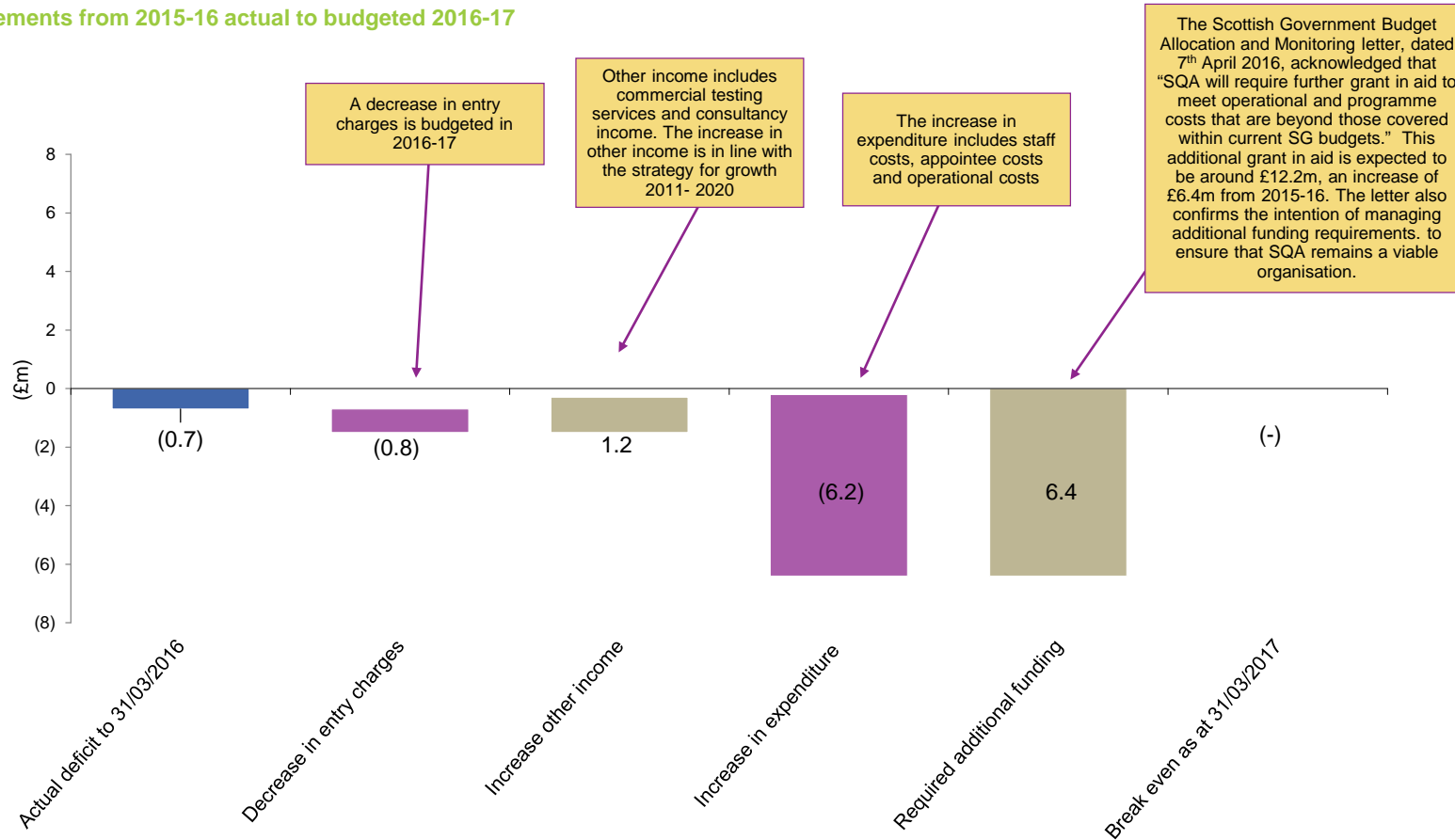
Staff costs are budgeted to be £2.1 million higher and appointee costs are expected to increase by £3.2 million as a result of wage inflation and pressures to support the continued delivery of the CfE programme, with national 5 qualifications requiring external assessment.

Page 9 summarises the changes from the 2015-16 outturn to the 2016-17 budget.

	2016-17 £000	2015-16 £000
<b>Core income:</b>		
Entry charges	41,703	42,497
Other income	11,041	9,818
Grant in aid	1,800	1,800
Scottish Government – property	2,593	2,593
Capital grant release	-	600
Additional grant in aid	12,325	5,997
<b>Total income</b>	<b>69,462</b>	<b>63,305</b>
<b>Core expenditure:</b>		
Staff costs	(26,764)	(24,646)
Appointee costs	(19,236)	(16,085)
Operational costs	(19,769)	(18,022)
Property rental	(2,593)	(2,593)
Depreciation	(1,100)	(1,959)
<b>Total expenditure</b>	<b>(69,462)</b>	<b>(63,305)</b>
<b>Core deficit</b>	<b>-</b>	<b>-</b>
<b>Grant funding</b>		
Income	6,500	13,254
Expenditure	(6,500)	(13,254)
Grant deficit	-	-
<b>Total deficit</b>	<b>-</b>	<b>-</b>

The graph below shows the movement in the actual surplus in 2015-16 and provides a bridge to the 2016-17 budgeted surplus. In the graph the 2015-16 grant-in-aid represents the final received amount. Confirmed grant in aid for the year ending 31 March 2017 will remain consistent at £1.8million.

### Key movements from 2015-16 actual to budgeted 2016-17



### Going concern

SQA had net assets of £4.058 million as at 31 March 2016 (2014-15: £7.477 million liability). The change from a net liability position to a net asset position is due to the significant decrease in the defined benefit obligation.

Management considers it appropriate to adopt a going concern basis for the preparation of the financial statements. It considers that the core grant in aid, additional grant in aid and entry charge income is sufficient to ensure that SQA is able to meet debts as they fall due. Whilst there is technically some risk in the unconfirmed grant in aid, required to deliver the 2016-17 expenditure budget, discussions with Scottish Government indicate that this will be forthcoming. These circumstances have been disclosed within the financial statements.

In respect of the defined benefit obligation: deficit repayments are being made (£4.29 million paid in 2015-16 and £5.69 million expected in 2017-18) to improve the funding position of liabilities. The full obligation of £16.11 million does not fall due within one year and therefore does not impact on the going concern assumption.

### Conclusion

SQA has maintained a strong control of the financial position and realised savings in the year. Whilst SQA has a relatively low net asset position, due to the pension liability, we do not consider this impacts the ability of SQA to continue as a going concern given that pension funding is long term in nature.

Although there is a technical funding gap in 2016-17, indications from Scottish Government are that funding will be forthcoming.

We are content that the going concern assumption is appropriate for SQA, in light of the matters set out above.

A blue trapezoidal graphic on the left side of the page, with a gradient from dark blue on the left to a lighter blue on the right. The text is centered within this graphic.

# **Financial statements and related reports**

#### **Audit opinion**

We issued an unqualified opinion on the truth and fairness of the state of SQA's affairs as at 31 March 2016. There were no matters on which we are required to report by exception. There were two matters which required specific focus in respect of subsequent events: the status of the outstanding Saudi debt; and any developments in respect of a possible financial claim from a supplier of services (page 14). There were no matters requiring disclosure or adjustment in the financial statements.

#### **Financial reporting framework, legislation and other reporting requirements**

SQA is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the FReM. Our audit confirmed that the financial statements have been prepared in accordance with the FReM and relevant legislation.

#### **Regularity**

Our audit work, as outlined on the following pages, has concluded that in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

#### **Statutory reports**

We have not identified any circumstances to notify the Auditor General that indicate a statutory report may be required.

#### **Other communications**

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

#### **Audit misstatements**

There were no audit adjustments required to the draft annual accounts. There was one unadjusted audit difference in relation to the capitalisation of intranet costs. As the system is not revenue generating we consider capitalisation to be inappropriate. The net book value is £0.12 million.

#### **Written representations**

There were no changes to the standard representations required for our audit from last year.

#### Materiality

We summarised our approach to materiality in the audit strategy document. On receipt of the financial statements, as well as at the end of the audit, we reviewed our materiality levels. Whilst total expenditure per the financial statements was higher than that used to calculate planning materiality (£79 million per financial statements; £75 million budgeted), we concluded that our planning materiality for of £1.5 million (1.9% of expenditure; 2% of budgeted expenditure) remains appropriate. We report all misstatements greater than £75,000.

#### Forming our opinions and conclusions

In gathering the evidence for the audit conclusions we have:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered and that the regularity of income and expenditure was in accordance with regulations;
- communicated with internal audit and reviewed its reports as issued to the audit committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts have been considered;
- reviewed estimates and accounting judgements made by management and considered for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended audit committee meeting to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

#### Financial statements preparation

High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 9 May 2016. There was evidence of accountability and ownership of working papers across the finance department.

The 'front end' narrative sections were received on 3 July 2016.

#### Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document. We set out the key audit procedures to address those risks and our findings from those procedures on the following pages, in order that the audit committee may better understand the process by which we arrived at our audit opinion.

Significant risks:

- financial position;
- income recognition fraud risk; and
- management override of controls fraud risk.

Other focus areas:

- appointee expenditure and
- retirement benefits.

We have no changes to the risk or our approach to addressing the assumed ISA risk of fraud in management override of controls. We do not have findings to bring to your attention in relation to these matters. No control overrides were identified.

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Financial position</b></p> <p>SQA is operating in a challenging economic environment, with funding restrictions and increasing expenditure pressures. This presents the potential risk that the organisation is not financially sustainable.</p> <p>The 2015-16 budget assumed a break-even position with increased core grant-in-aid funding.</p> <p>The Scottish Government has extended the fixed cost pricing agreement after August 2016. This has had an impact on the amount of additional funding required from the Scottish Government with the confirmed grant in aid remaining at £1.8 million.</p>	<ul style="list-style-type: none"> <li>■ We updated our understanding of SQA's financial position through review of the 2015-16 accounts and consideration of budget information. We include narrative on pages six to ten.</li> <li>■ We performed controls testing over the budgeting process including the monitoring of budgets throughout the year. We performed substantive procedures, including substantive analytical procedures, over income and expenditure comparing the final position to budget.</li> <li>■ We assessed management's control of the budget and the level of scrutiny over savings and efficiencies.</li> <li>■ We note that during 2016 SQA gave notice that it will not renew its IT contract with the existing supplier when it ends in 2016-17. The supplier performed an exit audit and stated that SQA did not complete licence monitoring procedures contrary to the contract. The supplier has stated that there is a potential claim. SQA has evidence that it has complied with the terms however this is not the prescribed evidence the supplier requires. Management will continue to seek expert advice and monitor the situation.</li> <li>■ This matter arose at the end of the onsite audit and no further information is available. The financial statements disclose a contingent liability. We considered the results of management's review and any evidence provided by the supplier.</li> </ul>	<p>We found that management is adequately monitoring the financial position through regular internal reporting. This is communicated to directors and the executive management team ('EMT') on a regular basis.</p> <p>Management has applied the going concern assumption in preparing the annual accounts. We consider this assumption on page nine and concluded that it is appropriate.</p> <p>The potential claim from the supplier is significant, if not material. There is insufficient evidence that a provision is required and there may not be a formal claim.</p>

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Fraud risk from income recognition</b></p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk.</p> <p>The risk is that income relating to 2015-16 is incorrectly accrued or deferred.</p> <p>The timing of providing services across the year end can involve management estimates what to accrue and defer to 2016-17.</p>	<p>We tested the design, implementation and operating effectiveness of the controls over income as detailed in our interim report.</p> <p>The following substantive testing was performed to consider the fraud risk from income recognition:</p> <ul style="list-style-type: none"> <li>■ Predictive analytical procedures over income comparing the final position to budget and prior year and investigating significant variances.</li> <li>■ Sales cut-off testing on invoices raised pre and post year end to verify they are accounted for in the correct period.</li> <li>■ Vouching significant prepayments and accrued income to source documentation.</li> <li>■ Searching for unrecorded assets and liabilities as recorded in SQA's main bank accounts.</li> </ul> <p>No exceptions were noted during testing.</p> <ul style="list-style-type: none"> <li>■ Entry charges consist of levy and non-levy income and an amount has to be accrued each year to recognise income earned not yet received. This occurs due to timing differences between the financial and academic year. We found the calculation and basis for accrued income to be reasonable and agreed entry numbers to the billing system. Predictive analytical procedures found the variance between actual and expected to be within an acceptable range.</li> <li>■ Cut-off testing identified significant balances recorded post year end. A sample was tested and no errors were noted.</li> <li>■ Government funding was agreed to a letter from the Scottish Government. Consideration was given to the types of funding received – core, programme and capital. Checks were made to identify if there are any conditions relating to these grants which SQA must comply with. Capital funding is not received for a specific project and there are no additional returns to be made.</li> <li>■ SQA received £1.4 million of the 2016-17 Grant in Aid allocation in February 2016, in advance of expected need. This was necessary to maintain working capital availability, due to a shortfall arising from the non-recovery of a Saudi debt. Whilst the Grant in Aid cash was received in 2015-16, recognition of the income has been deferred to 2016-17. Management expects the £1.4 million debt to be recovered although the continued late payment has given rise to a risk of not recovering the debt and a provision recognised.</li> <li>■ We reviewed correspondence and discussed the need for a bad debt provision with management. We confirmed that as of the date of this report the debt remains outstanding.</li> </ul>	<p>We have concluded that income has been correctly recognised when it was incurred or related to 2015-16.</p> <p>We concur with the need for a bad debt provision, given the continued delay in recovering the Saudi debt.</p> <p>We concur with the deferral of the 2016-17 Grant in Aid advance, as it relates to expenditure to be incurred in 2016-17.</p>



OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Retirement benefit obligations</b></p> <p>SQA accounts for its participation in the Strathclyde Pension Fund in accordance with IAS 19 Retirement benefits, using a valuation report prepared by actuarial consultants.</p> <p>SQA's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases.</p> <p>IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The determination of the retirement benefit obligation is inherently judgmental and there is a financial statement risk as a result.</p>	<p>Our work consisted of:</p> <ul style="list-style-type: none"> <li>■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks;</li> <li>■ testing of scheme assets and rolled-forward liabilities;</li> <li>■ testing of the level of contributions used by the actuary to those actually paid during the year;</li> <li>■ testing of membership data used by the actuary to data from SQA; and</li> <li>■ agreeing actuarial reports to financial statement disclosures.</li> </ul>	<p>We are satisfied that the retirement benefit obligation:</p> <ul style="list-style-type: none"> <li>■ is correctly stated in the balance sheet as at 31 March 2016;</li> <li>■ has been accounted for and disclosed correctly in line with IAS19 <i>Retirement benefits</i>; and</li> <li>■ assumptions used in calculating this estimate and management's judgements are appropriate and within the acceptable KPMG range.</li> </ul> <p>We set out further information in respect of the defined benefit obligation and the related assumptions on page 32. The defined benefit obligation decreased by £12.2 million compared to 31 March 2015, driven by an increase in discount rate (0.3% higher), and decreases in future salary increases (0.1% lower), RPI (0.1% lower) and future pension increases (0.2% lower).</p>

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Appointee expenditure</b></p> <p>Appointee expenditure is considered to be an other focus area due to the quantum of transactions and varying numbers of appointees, which is a factor in the account balance.</p>	<p>We performed controls testing over the payment of appointees. The controls relate to the following processes:</p> <ul style="list-style-type: none"> <li>▪ Monthly payment runs – a sample of two monthly reconciliations were tested, to verify that the total amount per APS agrees to the SAP system and that these payment schedules had been appropriately completed and authorised before being processed.</li> <li>▪ Manual payment forms – a sample of 25 payment forms were tested to ensure they had been authorised by a member of staff at the appropriate grade (four or above) and that the form was signed by payroll.</li> </ul> <p>Work was conducted at the final audit and substantive procedures performed. The substantive procedures included:</p> <ul style="list-style-type: none"> <li>▪ Analytical review – We formed an expectation of the appointee costs for the year and compared to actual. The initial variance between expected appointee costs and the actual appointee costs, on a like for like basis, was around £3 million. In 2015-16 SQA ran National 5, Higher and New Higher exams, compared to the prior year when it only ran National 5 and Higher exams. This new block of qualification increased appointee fees due to the increased hours required to cover the qualifications.</li> </ul> <p>On top of this as the structure was new, more time was taken to mark papers and this slowed down throughput rate and increased costs. All of these factors combined led to higher appointee costs. This is in line with our understanding and we are comfortable with the variance.</p>	<p>The controls were found to be designed effectively, and those relating to manual payment forms and monthly reconciliations were implemented and operating effectively.</p> <p>Appointee expenditure recognised in the year has been correctly recognised and presented in the financial statements.</p>

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<b>Performance and accountability report</b>	<p>SQA is required produce a performance and accountability report to comply with FReM chapter 5.</p> <p>A performance and accountability report is included in the annual accounts. This outlines the performance overview and the future plans and developments in line with their strategic objectives.</p>	<p>We are satisfied that the information contained within performance and accountability report is consistent with the financial statements.</p> <p>We reviewed the contents of the performance and accountability report against the guidance issued by the Financial Reporting Council and are content with the proposed report.</p>
<b>Remuneration report</b>	<p>The remuneration report was completed after the annual accounts were first made available, and supporting reports and working papers were provided. SQA is required to prepare the remuneration report in line with FReM chapter 5.</p> <p>The remuneration report was audited and salary disclosures checked to payroll system. The report was checked against the FReM to ensure all necessary disclosures had been made.</p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made. We concur with the appropriateness of the additional disclosures, which further explain the remuneration for readers of the accounts.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
<b>Annual governance statement</b>	<p>The annual governance statement is contained within the accountability report. This includes a directors' report, statement of accountable officer's responsibilities and a governance statement.</p>	<p>We are satisfied that the annual governance statement is prepared in line with relevant guidance and is consistent with the governance framework in place at SQA and our understanding of the organisation.</p>

#### Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by SQA to be appropriate, and there have been no changes to adopted accounting policies in the year. There are no significant accounting practices which depart from what is acceptable under IFRS, and the FReM.

Significant accounting estimates relate to the present value of defined benefit obligations under IAS 19 (as calculated by SQA's actuary, Hymans Robertson) using agreed financial assumptions. We found the assumptions and accounting for pensions to be appropriate, as discussed on page 32. We did not identify indications of management bias.

Financial statement disclosures were considered against requirements of the FReM and IFRS. No departures from these requirements were identified.

#### Future accounting and audit developments

There are no significant changes to the FReM for 2016-17. There are no changes to or new IFRS for 2016-17 which will have a significant impact on SQA.

ISA (UK & Ireland) 700 and 720 have been revised for accounting periods beginning on or after 17 June 2016. These revise the requirements for the structure and content of the independent auditor's report. Audit Scotland is considering whether to early adopt the standards for 2016-17.

**Wider scope**

## Introduction

The 2016 Code of Audit Practice frames the wider scope of audit in terms of four audit dimensions; financial management, financial sustainability, governance and transparency and value for money. At the centre of these dimensions is Best Value. We considered these audit dimensions in the current year.

It remains the responsibility of the audited body to ensure that it has appropriate arrangements across each of these audit dimensions. We review and provide conclusion on SQA's arrangements.

During our work on the audit dimensions we considered the work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

## Audit work and conclusions

We summarise over the next few pages the work we have undertaken in the year to obtain assurances over the arrangements for each audit dimension and our conclusions on the effectiveness and appropriateness of arrangements.

The next page sets out those risks we identified during audit planning, any emerging risks during the course of audit work and our overall conclusion on each audit dimension.

Where we found arrangements to not be effective or are absent we provide further narrative and recommendations for improvement. Where we have found the arrangements to be generally effective and operating as expected we have identified this in the conclusions we have formed.



#### Financial sustainability (Page 25)

SQA has an objective to be financially sustainable. However the need to agree an update to the pricing model for local authorities and the requirement for additional funding from Scottish Government each year means that SQA technically is not financially sustainable.

The financial statements have been prepared under the assumption that the organisation is a going concern. Given the nature of SQA and its critical role in the implementation of CfE which is supported by the Scottish Government, as well as management's actions to increase other income and manage expenditure, we concur with the assumption.

#### Governance and transparency (Page 26)

SQA is overseen by a board of management and its work is supported by the executive management team and the audit committee which meet regularly. Reports from each are presented to the Board for consideration. The quarterly performance pack includes sufficient information to enable scrutiny of the key elements of SQA's operations. We consider that the governance arrangements are appropriate.

We have not identified areas where SQA is not transparent, and management monitors requests for further information within the performance reporting.

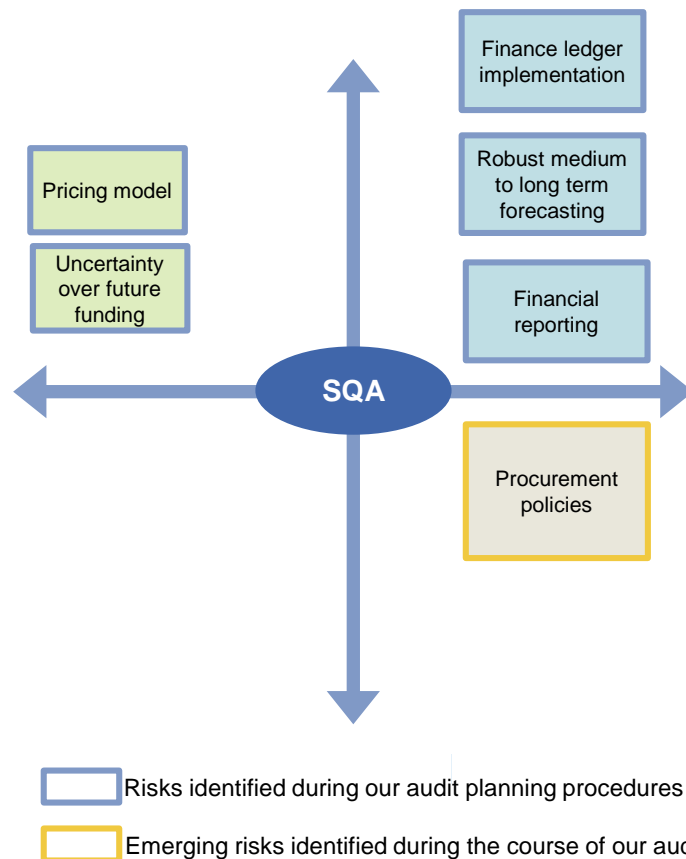
#### Financial management (Page 23)

SQA's finance department has appropriate financial capacity for current operations. Sound budgetary processes are supported by a strong internal control environment, and no significant control deficiencies were identified. This is supported by regular reporting and scrutiny by senior management and those charged with governance.

The implementation of the new ledger system should strengthen the control environment and reduce manual error. The ledger implementation is behind schedule and this compromises the ability to realise efficiencies.

#### Value for money (Page 25)

SQA strives to achieve value for money in its delivery of services. This has been seen through effective controls over trade payables and procurement. Internal audit performed a review of procurement, ensuring there is a formal policy document, that the process for tenders is fair and transparent and purchasing activity is regularly monitored. No significant weaknesses were identified.



Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

We carried out audit tests to determine the effectiveness of the financial management arrangements. This included:

- *Assessing the budget setting and monitoring processes within SQA, including the approval of the budget by Board.* We found these to be robust, with regular and appropriate reporting and scrutiny by senior management, EMT and the Board.
- *Review of SQA's compliance with Scottish Government's funding requirements by managing its resources to budget and complying with funding terms.* SQA receives different types of grant including core, programme and capital grants. These amounts were agreed to funding letters are consideration given to any attached terms. SQA complies with the funding terms imposed.
- *Consideration of the finance function and financial capacity within SQA.* What we noted that the financial processes are operating as expected, benefit will be gained from the introduction of the new ledger system and will be supported by strong automated controls inbuilt within CBS. Finance team members have appropriate skills, capacity and capability to support SQA, although further strategic financial management is likely to be required as the external environment continues to develop and the functions SQA performs evolve.
- The new corporate business system implementation is behind schedule by around one year. The go-live date is planned for October/ November 2016 however a set date has not yet been decided. Management expects enhanced control to be secured with the new system, including in respect of appointee management.

We are required to provide specific conclusions on the areas opposite, which relate to financial management and support our overall conclusion on this wider scope area.

## Internal controls

Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. Details of controls tested were reported to those charged with governance in our interim audit report. No significant recommendations were raised. Three 'grade three' (minor) recommendation were raised in relation to IT controls, journals and procurement policy.

A summary of the completion of prior year audit recommendations is provided at appendix four. One 'grade three' (minor) recommendation was raised in 2014-15; this has been completed.

**Conclusion:** Internal controls tested over risk management, financial, operational and compliance systems and procedures are designed, implemented and operating effectively.

## National Fraud Initiative

The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches.

We submitted a return to Audit Scotland summarising our conclusions on SQA's participation in NFI. The questionnaire covered reporting of NFI progress and outcomes, recording of results of investigations in the NFI system, action taken for alleged fraud cases and the overall engagement of SQA with NFI.

**Conclusion:** The return concluded that SQA discussed and reported relevant feedback and responded effectively and efficiently to outcomes, utilising resources appropriately to respond to the outcomes. No alleged or actual fraud was identified through NFI.



### Arrangements for the prevention and detection of fraud and error

Testing over the processes to prevent and detect fraud and error included:

- *Review of policies against best practice guidance and examples.* SQA's policies were found to be in line with relevant guidance. There is a fraud response policy which details how the organisation will deal with fraud and the steps which should be taken.
- *Consideration of the accessibility of policies to staff and board members and if the policies had been implemented effectively.* The policies and processes tested are readily available to staff and had been implemented effectively.
- *Consideration of controls which reduce the risk of fraud and error.* There are monthly meetings held between finance staff and other departments to discuss variances in cost centres. There are also monthly bank and control account reconciliations which should identify any variances.

**Conclusion:** SQA has appropriate arrangements to prevent and detect fraud.

### Standards of conduct and the prevention and detection of corruption

Testing over the processes to prevent and detect corruption included:

- *Review of policies (codes of conduct for staff and board members, the whistleblowing policy and registers of interests) against best practice guidance and examples.* SQA's policies were found to be in line with relevant guidance. There is a code of conduct which staff must follow and disciplinary procedures are in place for non compliance. There is also a whistleblowing policy in place and a register of interest is maintained.
- *Consideration of the accessibility of policies to staff and board members and if the policies had been implemented effectively.* The policies and processes we tested are readily available to staff and had been implemented effectively.

- *Testing of completeness of registers of interests of senior staff and board members.* No errors were identified in this testing.
- *Review of reporting arrangements for conflicts of interests and whether these had been followed.* Conflicts of interest are a standing agenda item for committees to ensure appropriate reporting.

**Conclusion:** SQA has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

In considering financial sustainability of SQA we performed the following work:

- *Review of the financial position of SQA as at 31 March 2016 and future budgets and forecasts*; we provide commentary on the financial position on pages six to ten. This includes consideration of the pension deficit contribution payments.
- *Reviewing financial forecasting, financial strategies and key risks over financial sustainability*. The budget for 2016-17 has been reviewed and incorporates the need for additional grant in aid of £12.3million. The ambition of SQA is to reduce its dependency on the public purse, however in order to achieve this SQA needs to be able to invest for the future, such as investing in bids for more international contracts. Modelling has taken place to demonstrate possible options should the fixed price agreement come to an end, in order to agree a pricing arrangement which better reflects SQA's costs. The fixed price arrangement which has been in place for three years will continue in 2016-17.
- *Reviewing efficiency projects implemented by SQA*. SQA new ledger system should enable allow more of the key processes to be automated and reduce manual input. The implementation of the system is causing a spike in IT costs in the current year however this should provide long term benefit.

Value for money is concerned with using resources effectively and continually improving services.

We consider value for money throughout our testing. Some of the areas where we had a specific focus on value for money:

- *Reviewing the procurement policy and performing controls testing over the procurement of goods and services*. One exception was found through the testing, where the procurement information in the scheme of delegation was out of date. However the procurement policy itself had been updated and the policy was found to be in line with good practice. The tendering process provides evidence of scrutiny for value for money in the use of resources.
- *Reviewing how SQA has streamlined its services*. Workforce planning was considered as part of the returns made to Audit Scotland. SQA shows consideration of the current staffing levels and has robust planning procedures for the short term. Further comment is provided on page 27.
- *Consideration of internal audit's work on procurement and tendering*. Internal audit reviewed the procurement policy and process for tenders. Four findings were green with no further actions and one was amber requiring further action. This relates to having proper documentation and evidence in place for each tender to show how the process was carried out.

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

In considering governance and transparency at SQA we performed the following work:

- *Reviewing the organisational structure, reporting lines and level of scrutiny within SQA.* SQA demonstrates effective scrutiny, challenge and transparency on decision making through various levels of committee reporting reviewed. Decisions are transparent as actions are documented within detailed board minutes which are available to key stakeholders.
- *Reviewing financial and performance reporting within the organisational structure.* SQA is overseen by a board of management and its work is supported by the executive management team and the audit committee which meet regularly. Reports from each are presented to the board for consideration.
- *Reading the annual governance statement,* as discussed on page 18.
- *Consideration of scrutiny over key risks* Risk registers are operated for the organisation as a whole and for individual directorates and are also regularly reviewed. Actions within registers are assigned 'action directors' to ensure the accountability of actions to reduce and mitigate risk. The risk register for the organisation as a whole is considered and updated monthly by the executive management team and is also reviewed quarterly by the board of management and the audit committee to ensure it is up to date.

### Corporate governance

We updated our understanding of the governance framework and documented this through our overall assessment of SQA's risk and control environment. This included testing entity wide controls, including risk management, operational and compliance controls, as reported in the interim management report.

**Conclusion:** Governance controls were found to be operating effectively and we consider the governance framework to be appropriate for SQA.

### Internal audit

Internal audit is provided by Scott Moncrieff and supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses to management for action.

Audit Scotland's Code of Audit Practice sets out the wider dimension of public sector audit. It requires external auditors to perform an annual assessment of the adequacy of the internal audit function. We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS.

From this assessment, and considering the requirements of International Standard on Auditing 610 (*Considering the Work of Internal Audit*), we can apply Scott Moncrieff's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there is no impact on our planned substantive testing.

**Conclusion:** We apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and therefore had no impact on our planned substantive testing.

In November 2013 the Accounts Commission and Auditor General for Scotland published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made recommendations to the Scottish Government.

We performed follow up work on this report, and submitted a return to Audit Scotland summarising our findings and conclusions. This work concluded on the following key matters:

- **Planning:** The HR team produces an annual forecast showing expected establishment for each department. This involves input from all areas of the organisation including the finance team and management. This acts as a robust short-term planning tool and supports both financial control and effective and efficient recruitment practices
- **Service delivery:** There is an ongoing transformational change programme. This looks at the organisation in relation to the sector as a whole. Any changes being made to the organisation would require consideration of how this would affect the workforce.
- **Partnership working:** There is a shared post with the Scottish Funding Council and the HR Policy Manager splits his time between the two organisations. There are other examples of where SQA provides recruitment assistance to smaller organisations which do not have the funds or capacity to do so themselves.
- **Reporting:** An establishment plan is agreed with management and finance based on operational objectives at the outset of the year. This is monitored, reviewed and updated monthly to ensure that workforce costs are accurately budgeted and controlled. The establishment also highlights approaching contract end dates allowing management to manage temporary staff effectively.
- **Challenge and scrutiny:** SQA has identified the key workforce areas it wishes to monitor and where appropriate has set KPIs to monitor performance. Regular and timely management information is produced and reported through the quarterly performance review pack to allow a complete picture of performance and issues to be assessed. The HR system also supports live reporting of data

**Conclusion;** The need for a long term strategy is recognised by management and there are tools to support longer term planning, such as the new integrated finance and HR system (Agresso). Short term planning was found to be robust and there were examples of best practice noted.

# Appendices

To the audit committee members

### Assessment of our objectivity and independence as auditor of Scottish Qualifications Authority (the Company)

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability

- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity except for those detailed below where additional safeguards are in place.

### Independence and objectivity considerations relating to the provision of non-audit services

#### Summary of fees

We have considered the fees charged by us to the company and its affiliates for professional services provided by us during the reporting period.

We have detailed the fees charged by us to the company and its related entities for significant professional services provided by us during the reporting period below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the year ended 31 March 2016 can be analysed as follows:

	Current Year	Prior Year
	£000	£000
Audit of Company	45	45
Audit of Branch	5	-
<i>Total Audit</i>	50	45
Tax Return Services (i.e. related to assistance with corporate tax returns)	28	24
VAT services	5	-
<i>Total non-audit services</i>	33	24
<b>Total Fees</b>	<b>83</b>	<b>69</b>

# Appendix one

## Auditor independence (continued)

The ratio of non-audit fees to audit fees for the year was 0.66 : 1.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table opposite.

### Independence and objectivity considerations relating to other matters

We set out below our consideration of other matters which, in our professional judgement, have a bearing on our independence and objectivity.

### Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the audit director and audit staff is not impaired.

This report is intended solely for the information of the audit and risk committee of the company and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

*KPMG LLP*

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2016 £000	Value of Services Committed but not yet delivered £000
Tax compliance services	Assistance with the completion of the corporate tax returns for Scottish Qualification Authority	Self-review Management	<p>Work performed by a team separate from the audit team.</p> <p>Work does not commence until after the financial statements to which the tax return relates are signed.</p> <p>Services do not result in any material judgments within the financial statements.</p> <p>Management remains responsible for any decisions.</p>	Fixed	28	28

# Appendix two

## Prior year recommendations

We follow up prior year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2014-15 audit and their current status.

Grade	Number recommendations raised	Implemented	In progress	Overdue
One	-	-	-	-
Two	-	-	-	-
Three	1	1	-	-

We have provided a summary of progress against overdue actions below, and their current progress.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
<p>Our testing of general IT controls in relation to the SAP system found that program change request forms were not available for six of the sample testing items.</p> <p>There is a risk that unauthorised or inappropriate program changes could be made if there is no requirement to have a change request form.</p> <p>We noted that a mitigating control is in place, as only approved members of staff have access on SAP to be able to make program changes.</p>	<p>A manager or appropriate IT staff member should review on a periodic basis the audit trail logs of activities performed by user accounts (excluding their own) with administration level access that resulted in changes or updates to the SAP system.</p> <p>This would strengthen the current process.</p>	<p>Enhancements to the program change request process have been made post year end which address this recommendation.</p> <p><b>Responsible officer:</b> IT Security Manager / Service Delivery Manager</p> <p><b>Implementation date:</b> n/a</p>	Complete



# Appendix three

## Defined benefit obligations

In respect of employee benefits, each of the assumptions used to value SQA's net pension deficit are within an acceptable range of KPMG's expectations.

We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of IAS 19.

We set out below the assumptions in respect of defined benefit obligations.

Defined benefit pension liability																							
2016 £000	2015 £000	KPMG comment																					
(16,114)	(28,331)	<p>In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation.</p> <p>Details of key actuarial assumptions are included in the table, along with our commentary.</p> <table border="1"> <thead> <tr> <th>Assumption</th> <th>SQA</th> <th>KPMG central</th> <th>Comment</th> </tr> </thead> <tbody> <tr> <td>Discount rate (duration dependent)</td> <td>3.50%</td> <td>3.50%</td> <td>Acceptable. The proposed assumptions are within the acceptable range.</td> </tr> <tr> <td>CPI inflation</td> <td>RPI less 0.9%</td> <td>RPI less 1.0%</td> <td>Acceptable. The proposed assumptions are within the acceptable range.</td> </tr> <tr> <td>Net discount rate (discount rate – CPI)</td> <td>1.15%</td> <td>1.25%</td> <td>Acceptable. The proposed assumptions are within the acceptable range of +/- 0.3% from the KPMG central range.</td> </tr> <tr> <td>Salary growth</td> <td>RPI + 1%</td> <td>Typically 0% - 1.5% above inflation</td> <td>Acceptable. The proposed assumptions are within the acceptable range.</td> </tr> </tbody> </table> <p>The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of between 17 and 23 years. The closing deficit decreased by £12.2 million compared to 2014-15, primarily due to an increase in discount rate (0.3% increase), and decreases in future salary increases (0.1% decrease), RPI (0.1% decrease) and future pension increases (0.2% decrease).</p>		Assumption	SQA	KPMG central	Comment	Discount rate (duration dependent)	3.50%	3.50%	Acceptable. The proposed assumptions are within the acceptable range.	CPI inflation	RPI less 0.9%	RPI less 1.0%	Acceptable. The proposed assumptions are within the acceptable range.	Net discount rate (discount rate – CPI)	1.15%	1.25%	Acceptable. The proposed assumptions are within the acceptable range of +/- 0.3% from the KPMG central range.	Salary growth	RPI + 1%	Typically 0% - 1.5% above inflation	Acceptable. The proposed assumptions are within the acceptable range.
Assumption	SQA	KPMG central	Comment																				
Discount rate (duration dependent)	3.50%	3.50%	Acceptable. The proposed assumptions are within the acceptable range.																				
CPI inflation	RPI less 0.9%	RPI less 1.0%	Acceptable. The proposed assumptions are within the acceptable range.																				
Net discount rate (discount rate – CPI)	1.15%	1.25%	Acceptable. The proposed assumptions are within the acceptable range of +/- 0.3% from the KPMG central range.																				
Salary growth	RPI + 1%	Typically 0% - 1.5% above inflation	Acceptable. The proposed assumptions are within the acceptable range.																				

# Appendix four

## Appointed auditors responsibilities

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	<p>Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions.</p> <p>Conclude on whether the monitoring arrangements are operate and operating in line with recommended best practice.</p>	Page 25 sets out our conclusion on these arrangements.
Financial statements and related reports	<p>Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income.</p> <p>Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.</p> <p>Provide an opinion on the regularity of the expenditure and income.</p>	Page 11 summarises the opinions we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports and grant claims.	Page 17 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
Financial statements and related reports	Notify the Auditor General when circumstances indicate that a statutory report may be required.	Page 11 sets out any notifications we have made to the Auditor General.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Page 22 sets out our conclusion on these arrangements.
WGA returns and grant claims	<p>Examine and report on WGA returns</p> <p>Examine and report on approved grant claims and other returns submitted by local authorities.</p>	SQA is below the threshold for the completion of audit work on the WGA return.

# Appendix four

## Appointed auditors responsibilities (continued)

Area	Appointed auditors responsibilities	How we've met our responsibilities
Standards of conduct – prevention and detection of fraud and error	Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct. Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.	Page 23 sets out our conclusion on these arrangements. Page 22 concludes on the bodies participation in the National Fraud Initiative.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Page 24 sets out our conclusion on these arrangements.
Financial position	Review performance against targets	Page 6 summarise our review of how the body has performed against it's financial targets.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	Page 6 sets out our conclusion on the bodies financial position including reserves balances. Page 8 sets out our conclusion on the bodies financial strategies and longer term financial sustainability.
Best Value	Review and conclude on the effectiveness and appropriateness of arrangements of accountable officers specific responsibility to ensure that arrangements have been made to secure Best Value.	Page 24 sets out our conclusion of the bodies arrangements.



The contacts at KPMG in connection with this report are:

Andy Shaw

*Director*

Tel: 0131 527 6673

[andrew.shaw@kpmg.co.uk](mailto:andrew.shaw@kpmg.co.uk)

Claire Donnelly

*Senior Manager*

Tel: 0141 300 5893

[claire.donnelly@kpmg.co.uk](mailto:claire.donnelly@kpmg.co.uk)

Fiona Bennett

*Assistant Manager*

Tel: 0141 228 4229

[fiona.bennett@kpmg.co.uk](mailto:fiona.bennett@kpmg.co.uk)



© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.