

Scottish Qualifications Authority

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Scottish Qualifications Authority
February 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

| | |
|--|----------|
| Risks and planned work | 4 |
| Introduction | 4 |
| Audit risks | 4 |
| Reporting arrangements | 7 |
| Audit fee | 7 |
| Responsibilities | 8 |
| Audit scope and timing | 9 |
| Financial statements | 9 |
| Internal audit | 10 |
| Audit dimensions | 11 |
| Strategic plan for the five year appointment | 12 |
| Independence and objectivity | 13 |
| Quality control | 13 |

Risks and planned work

Introduction

1. This annual audit plan contains an overview of the planned scope and timing of our audit of the Scottish Qualification Authority (SQA). Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the Code of Audit Practice issued by Audit Scotland.

2. This plan sets out the audit work necessary to allow us to provide an independent auditor's report and meet the wider scope requirements of public sector audit. The wider scope of public sector audit includes assessing arrangements for financial sustainability, financial management, governance and transparency and value for money. We make a public report of conclusions on these matters in our annual audit report to the Board and the Auditor General.

Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for SQA. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

| Audit Risk | Management assurance | Planned audit work |
|---|---|--|
| Financial statement issues and risks | | |
| <p>1 Risk of 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. ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> | <p>Owing to the nature of this risk, assurances from management are not applicable.</p> | <ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of significant management estimates and evaluation of the impact of any variability in assumptions. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. |
| <p>2 Risk of fraud over income</p> <p>The extent and complexity of the authority's income streams entails an inherent risk of fraud. ISA 240 requires that audit work</p> | <p>Internal controls in place and consistent with previous years.</p> | <ul style="list-style-type: none"> • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the areas of greatest risk. |

| Audit Risk | Management assurance | Planned audit work |
|--|---|--|
| <p>is planned to consider the risk of fraud over income, which is presumed to be a significant risk in any audit.</p> | | |
| <p>3 New ledger system</p> <p>SQA are in the process of implementing a new ledger system. At the time of writing, user acceptance testing is being conducted. However, a decision is still to be made as to whether the new system is to be fully implemented in 2016/17 or whether this will be deferred until 2017/18.</p> <p>Should the system be implemented prior to the year end, there is a risk that data migration errors and data corruption may impact on the preparation of the 2016/17 financial statements.</p> | <p>The new system will not be implemented until FY 2017/18, with a proposed go live date of 01 April 2017.</p> <p>Scott Moncrieff, SQA's internal auditors will perform an internal review of controls around the new system post implementation.</p> | <ul style="list-style-type: none"> • Discussions with management to confirm when the new ledger system will be implemented. • Performing an initial system review to gain understanding of the new ledger. • Review of user acceptance testing carried out by SQA. • Detailed testing of revenue and expenditure transactions focusing on the areas of greatest risk. • Additional data validation and completeness checks. |
| <p>4 IT contract</p> <p>SQA is in dispute with a supplier following an exit audit of IT licence usage. The potential liability was disclosed as a contingent liability in the 2015/16 annual accounts.</p> <p>The Scottish Government are aware of the issue and have been negotiating a solution with the supplier on the SQA's behalf.</p> <p>There is a risk of misstatement of any potential liability in the financial statements.</p> | <p>Scottish Government is providing some support to SQA in resolving the claim but they have indicated that the responsibility for resolution rests with SQA.</p> <p>SQA has hired an industry licence specialist to review the investigation carried out by the supplier. The specialists report is now being reviewed and SQA's lawyers, are looking to utilise the findings in negotiations with the supplier to reduce the potential liability.</p> | <ul style="list-style-type: none"> • Discussion with management to establish the year end position. • Monitor developments in this dispute throughout the year. • Review adequacy and basis of disclosure as part of the 2016/17 financial statements audit. |
| <p>Wider dimension risks</p> | | |
| <p>5 Current funding model</p> <p>SQA is unable, under the current funding model, to generate sufficient income to meet the cost of delivering the qualifications system in Scotland. Following preparation and approval of the 2016/17 budget by SQA, the Scottish Government issued a Budget Allocation and Monitoring letter which confirmed the budget and associated grant in aid. The letter also recognised that the SQA would require further grant in aid to meet operational and</p> | <p>The funding position is consistent with previous years and is under frequent review and discussion with partners at the Scottish Government. SQA have received assurances that they will have the continued support of the Scottish Government going forward.</p> | <ul style="list-style-type: none"> • Discussion with management to establish the year end position. • Review of correspondence with Scottish Government regarding 2016/17 funding. • Review of arrangements to secure efficiencies. |

| Audit Risk | Management assurance | Planned audit work |
|--|--|---|
| <p>programme costs beyond those covered within its 2016/17 budget.</p> <p>There is a risk that expectation of annual additional grant in aid could adversely impact on SQA's pursuit of budget efficiencies and future financial sustainability.</p> | | |
| <p>6 KPI reporting</p> <p>SQA monitor success against its strategic goals through the use of KPIs. KPIs are reported to the Audit Committee. KPIs are not reported to the Board on a regular basis.</p> <p>There is a risk that Board members are not able to apply an appropriate level of scrutiny and challenge to performance.</p> | <p>SQA continues to monitor performance via the Quarterly Performance Review (QPR) pack. The Pack is considered in detail at the quarterly Management Team Meeting (Executive Team plus all Heads of Service). The summary pages of the QPR are included in the Audit Committee papers for consideration. This approach is under discussion with the Audit Chair.</p> | <ul style="list-style-type: none"> • Review of Board papers and minutes. |
| <p>7 Capital expenditure budgetary control</p> <p>Internal Audit's report on Budgeting and Budgetary Control published in November 2016 identified that current finance system (SAP) is unable to track capital expenditure. Information in relation to capital costs is manually tracked and recorded on a separate Excel spreadsheet and then reconciled to SAP.</p> <p>This manual process increases the risk of errors and misstating the figures included in the 2016/17 financial statements.</p> | <p>Procedures are in place to capture all Capital Expenditure. All costs are posted to a limited number of General Ledger codes, which are reviewed and transferred, where applicable, to assets held on SAP.</p> <p>All asset records are maintained on SAP fixed assets software. Excel spreadsheets are maintained to assist in the reconciliation to General Ledger and Financial Reporting</p> | <ul style="list-style-type: none"> • Focused substantive testing of expenditure transactions to ensure completeness and accuracy of the capital expenditure. |
| <p>8 Long term financial planning</p> <p>One of the challenges for the Board is the absence of long term funding and policy information from the Scottish Government and the resulting difficulty in preparing medium to long term funding strategies to address work programmes and priorities. While this is an obstacle to precise financial planning the Board should take steps to prepare a 3-5 year rolling budget using what information is available and</p> | <p>SQA currently budgets for short to medium term. Longer term strategy and forecasting is prepared for commercial activity but it is more difficult for SQA's core activity given the SG's decision to continue to hold SQA's prices in Scotland at 2010 levels. Funding scenarios are provided to SG on an annual basis as part of the discussions on pricing. There has been little appetite from SG for discussion on the longer term financial position</p> | <ul style="list-style-type: none"> • Review of Board papers and minutes. |

| Audit Risk | Management assurance | Planned audit work |
|---|--|--------------------|
| <p>incorporating sensitivity analysis and scenario planning.</p> <p>In the absence of medium to long term financial planning the future financial risks facing the Board may not be clearly understood.</p> | <p>given the focus on the safe delivery of the new national qualifications. SG are fully aware that the DFM & Cab Sec for Education's announcement of amendments to the new qualifications in September 2016 will require a further programme of work over the next three years. This programme will require further SG grant funding.</p> | |

Reporting arrangements

4. This annual audit plan and the outputs detailed in Exhibit 2, and any other outputs on matters of public interest, will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy prior to the issue and publication of final reports.

6. We will provide an independent auditor's report to the Board and the Auditor General for Scotland setting out our opinion on the financial statements and other matters upon which we are required to provide an opinion. We will provide the Accountable Officer and Auditor General for Scotland with an annual audit report containing observations and recommendations on significant matters which have arisen during the course of the audit.

Exhibit 2 2016/17 Audit outputs

| Audit Output | Target date | Audit Committee/Board Date |
|------------------------------|------------------|----------------------------|
| Annual audit plan | 10 February 2017 | 27 February 2017 |
| Interim report to management | 21 April 2017 | 22 May 2017 |
| Annual audit report | 7 July 2017 | 31 July 2017 |
| Independent auditor's report | 23 August 2017 | 23 August 2017 |

Audit fee

7. The agreed audit fee for the 2016/17 audit of SQA is £45,580. In determining the audit fee we have taken account of the risk exposure of SQA, the planned

management assurances in place and the level of reliance we plan to take from the work of internal audit.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

9. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

10. The audit of the financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements. We aim to support improvement and accountability by reviewing and reporting on arrangements to manage performance, regularity and use of resources.

Audit scope and timing

Financial statements

13. The statutory financial statements audit will be the foundation and source of much of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of SQA and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how SQA will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

14. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the state of the SQA's affairs as at 31 March 2017 including its income and expenditure, for the year then ended
- whether they have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as interpreted and adapted by the Government Financial Reporting Manual (FReM), the requirements of the Education (Scotland) Act 1996 and directions made thereunder by the Scottish Ministers
- the regularity of the expenditure and income.

Materiality

15. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for SQA are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

| Materiality level | Amount |
|--|----------|
| Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the budget for 2016/17. | £760,000 |
| Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 75% of planning materiality. | £570,000 |
| Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality rounded to a memorable numeric. | £40,000 |

16. It should be noted that we continue to exercise our professional judgement in certain areas of the financial statements such as the management commentary, remuneration report and annual governance statement. All unadjusted errors in excess of the reporting threshold will be reported to the Audit Committee.

Timetable

17. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates:

Exhibit 4

Financial statements timetable

|  Key stage |  Date |
|---|--|
| Latest submission date of unaudited financial statements with complete working papers package | 5 May 2017 |
| Latest date for final clearance meeting with Director of Finance | 1 June 2017 |
| Agreement of audited unsigned financial statements Issue of annual audit report | 10 July 2017 |
| Issue of independent auditor's report | 23 August 2017 |

Internal audit

18. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Scott Moncrieff.

Adequacy of Internal Audit

19. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

Areas of reliance

20. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Budgeting and Budgetary Control
- Fixed Assets
- Estates and Asset Management
- Performance Management
- Information Governance

Audit dimensions

21. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements [Exhibit 5](#).

Exhibit 5

Audit dimensions



Financial sustainability

22. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

- whether SQA can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

23. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether SQA has arrangements in place to ensure systems of internal control are operating effectively
- whether SQA can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how SQA has assured itself that its financial capacity and skills are appropriate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established including the processing of National Fraud Initiative data matches.

Governance and transparency

24. 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. We will review, conclude and report on:

- whether SQA can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

25. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- SQA can provide evidence that it is demonstrating value for money in the use of its resources
- SQA can demonstrate that there is a clear link between money spent, output and outcomes delivered
- SQA can demonstrate that outcomes are improving.

Strategic plan for the five year appointment

26. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 6 Strategic plan

| Dimension | 2016/17 | 2017/18 | 2018/19 to 2020/21 |
|-----------------------------|--------------------------|--|-----------------------------------|
| Financial sustainability | | | Financial Planning |
| Financial management | | Financial Governance and Resource Management | |
| Governance and transparency | Role of Boards follow up | | |
| Value for money | | | <i>To discuss with management</i> |

Independence and objectivity

27. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

28. The engagement lead for SQA is Dave Richardson, Senior Audit Manager. Auditing and ethical standards require the appointed auditor, Dave Richardson, to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of SQA.

Quality control

29. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

30. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and engages external bodies to conduct independent quality reviews.

31. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Scottish Qualifications Authority

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



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