

# Scottish Funding Council

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

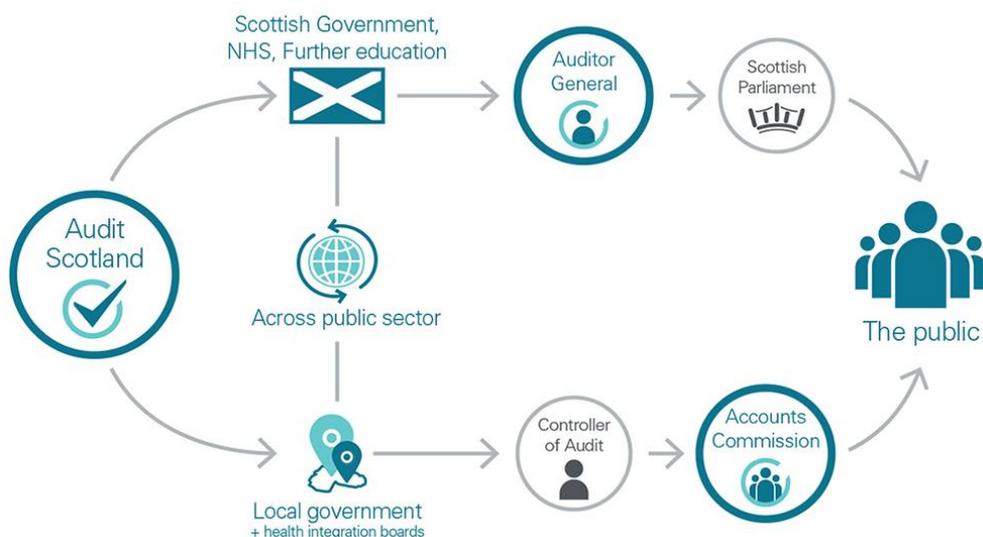
Prepared for Scottish Funding Council

March 2018

## 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.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the Code of Audit Practice, and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## 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 audit risk areas for the Scottish Funding Council (the Council). 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

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>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. This includes the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Due to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Detailed testing of transactions to confirm expenditure and income has been accounted for in the correct financial year.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>The Council receive a significant amount of income from European funding in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240,</p>	<p>Key controls working effectively.</p> <p>Sound budgetary control and monitoring arrangements in place.</p> <p>Counter fraud arrangements</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Source of assurance	Planned audit work
there is an inherent risk of fraud.	are well established and working effectively.	
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice expands the ISA 240 assumption on fraud over income to expenditure. Due to the extent and complexity of the Council's expenditure in funding colleges and universities there is an inherent risk of fraud over expenditure.</p>	<p>Key controls working effectively.</p> <p>Sound budgetary control and monitoring arrangements in place.</p> <p>Counter fraud arrangements are well established and working effectively.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Review actions taken in respect of NFI data matches.</p>
<p><b>4 Grants paid to colleges and universities</b></p> <p>The main activity of the Council is the award and payment of grants to colleges and universities. Due to the complexities around different year end dates and re-profiling of budgets, there is a risk that grants paid to institutions are incorrectly recorded in the financial statements.</p>	<p>Sound budgetary control and monitoring arrangements in place.</p> <p>Outcome Agreements issued to colleges and universities.</p> <p>Receipt of monthly cash flow projections from the colleges which detail payments made to date and future projections.</p>	<p>Review Internal Audit's Grant Funding Distribution report.</p> <p>Focused substantive testing of formula based grant awards to individual bodies.</p> <p>Sample testing of grant commitments at the year end.</p>
<p><b>5 Financial transactions</b></p> <p>The Council receives significant funding from the European Social Fund and financial transaction funding from the Scottish Government. Management judgements are required to determine the accounting treatment of this income.</p> <p>There is the risk that the judgements made are incorrect and result in incorrect accounting treatment.</p>	<p>Officers attend technical update training provided by the Scottish Government and are aware of the requirements of the FReM.</p> <p>Officers keep up to date with any changes to the accounting framework and seek support where necessary.</p>	<p>Review appropriateness of accounting treatment to ensure it is correct.</p>
<b>Wider dimension risks</b>		
<p><b>6 Financial sustainability</b></p> <p>The Council's Strategic Plan for 2015-18 contains high level objectives on the use of resources and only has financial plans for higher education and further education covering a one year period.</p> <p>There is the risk that with no financial plans extending beyond one year it will be difficult to identify the challenges ahead and to take action to manage the future impact on the Council's</p>	<p>The Outcome Agreement process and related guidance.</p> <p>The Council requires colleges to prepare five year financial forecasts.</p> <p>The Council requires universities to prepare four year strategic plan forecasts.</p>	<p>Review the Council's progress on drafting medium to long term financial plans.</p> <p>Consider the Council's arrangements for monitoring and reporting on the financial health of institutions.</p>

Audit Risk	Source of assurance	Planned audit work
financial position.		
<p><b>7 Governance and effectiveness</b></p> <p>The Enterprise and Skills Review introduced a strategic board to enhance joint working between the Council and other organisations. These changes have led to delays in developing and enhancing governance arrangements at the Council resulting in deferrals in areas that we would have expected to see progress.</p> <p>There is a risk of lack of clarity about roles, responsibilities and accountabilities as the new arrangements develop and a risk that this affects the effectiveness of the organisation.</p>	<p>Ongoing engagement with the Scottish Government.</p>	<p>Review potential impact of the changes on the Council, including impact on the operation of the Council's board.</p> <p>Monitor the progress with the new Framework document between the Council and the Scottish Government and review this once published.</p>
<p><b>8 IT strategy – cyber security</b></p> <p>The Council is currently finalising its ICT strategy and the risk of cyber attacks will be included within this.</p> <p>Cyber incidents pose an increasing threat to public sector bodies. In late 2017, the Scottish Government issued 'A Cyber Resilience Strategy for Scotland: Public sector action plan 2017-2018' which details a number of key actions which the Council will be required to complete throughout 2018. These include preparing cyber incident response plans, a cyber security strategy and resilience training.</p> <p>There is a risk that a cyber attack could disrupt the Council's key financial systems and may lead to data loss and financial and/or reputational loss.</p>	<p>Finalisation of ICT strategy.</p> <p>Cyber security is included as a risk on the Council's risk register.</p>	<p>Consider the Council's progress in developing its ICT strategy and its reference to cyber security.</p>

## Reporting arrangements

- Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 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.

6. We will provide an independent auditor's report to the Council, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Board or Audit and Compliance Committee Date
Annual Audit Plan	6 March 2018	6 March 2018
Annual Audit Report	7 June 2018	Audit and Compliance Committee: 7 June 2018 Board: 21 June 2018
Independent Auditor's Report	7 June 2018	Audit and Compliance Committee: 7 June 2018 Board: 21 June 2018

### Audit fee

7. The proposed audit fee for the 2017/18 audit of the Scottish Funding Council is £71,500 (2016/17 £70,480). In determining the audit fee we have taken account of the risk exposure of the Scottish Funding Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 3 May 2018.
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 and Compliance 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 and Compliance 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 (including supplementary guidance) and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

13. The statutory financial statements audit will be the foundation and source for the majority 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 the Council 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 the Council 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 financial position of the Council and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income



characteristics



responsibilities



principal activities



risks



governance arrangements

## Materiality

15. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

16. We calculate materiality at different levels as described below. The calculated materiality values for the Council are set out in [Exhibit 3](#).

## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – 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 2018 based on the audited accounts for 2016/17.	£18.0 million
<b>Performance materiality</b> – 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.	£13.5 million
<b>Reporting threshold (i.e. clearly trivial)</b> – 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 1% of planning materiality.	£180,000

17. We review and report on other information published with the financial statements including the performance report, the accountability report and the remuneration and staff report. Any issue identified will be reported to the Audit and Compliance Committee.

### Timetable

18. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Compliance Committee and Board dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	3 May 2018
Latest date for final clearance meeting with Director of Finance	24 May 2018
Issue of letter of representation and proposed independent auditor's report	31 May 2018
Agreement of audited unsigned annual accounts	21 June 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	21 June 2018
Independent auditor's report signed	22 June 2018
Latest date for signing of WGA return	30 Sept 2018

## Internal audit

19. 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.

## Adequacy of Internal Audit

20. Internal audit is provided by Scott-Moncrieff. As part of our planning work we conducted a review on the adequacy of internal audit's work and compliance with the Public Sector Internal Audit Standards (PSIAS). We are satisfied that the internal audit function is effective, operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place.

## Areas of Internal Audit reliance

21. To support our audit opinion on the financial statements we plan to place formal reliance on internal audit's Grant Funding Distribution audit.

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

- Corporate Governance
- Performance Management
- Procurement
- Monitoring of Institutions.

## Audit dimensions

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

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## Exhibit 5

### Audit dimensions



### Financial sustainability

24. 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 Council'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 the Council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

25. 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 the Council has arrangements in place to ensure systems of internal control are operating effectively
- whether the Council can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- how the Council has assured itself that its financial capacity and skills are appropriate
- whether the Council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### Governance and transparency

26. 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 the Council 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

27. Value for money refers to using resources effectively and continually improving services. Over the course of our audit appointment we will review, conclude and report on whether:

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

## Independence and objectivity

28. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.
29. The engagement lead for the Scottish Funding Council is Gordon Smail, Associate Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Scottish Funding Council.

## Quality control

30. 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.
31. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.
32. 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.

## Adding Value

33. Through our audit work we aim to add value to the Scottish Funding Council. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the Council has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work. We will also ensure there are clear links between our audit work and relevant national performance reports, such as the Scotland’s colleges overview report.

# Scottish Funding Council

## Annual Audit Plan 2017/18

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