

# Scottish Qualifications Authority

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for the Scottish Qualifications Authority

February 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

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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# Contents

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<b>Risks and planned work</b>	<b>4</b>
Audit risks	4
Reporting arrangements	5
Audit fee	6
Responsibilities	6
<b>Audit scope and timing</b>	<b>7</b>
Financial statements	7
Materiality	7
Internal audit	8
Audit dimensions	9
Independence and objectivity	10
Quality control	10

# Risks and planned work

1. This audit plan provides an overview of the planned scope and timing of our audit of the Scottish Qualifications Authority (SQA) for 2017/18. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland.

2. The plan sets out the audit work necessary to allow us to provide an independent auditor's report and meet the wider code requirements of public sector audit. The wider scope of public sector audit includes assessing arrangements for financial sustainability, 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 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 the Scottish Qualifications Authority (SQA). The key audit risks, which require specific audit testing, are set out at [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 consideration of the risk of management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not appropriate.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of fraud over income</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud over income, 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 appropriate.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> <li>• Perform cut-off testing of revenue transactions.</li> </ul>

Audit risk	Source of assurance	Planned audit work
<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 aspects of expenditure in the public sector. We are required to consider the risk of misstatement that may occur by the manipulation of expenditure recognition.</p>	<p>Owing to the nature of this risk, assurances from management are not appropriate.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on expenditure streams.</li> <li>• Detailed testing of transactions focusing on the areas of greatest risk.</li> <li>• Detailed testing of journal entries.</li> <li>• Review of regularity of expenditure transactions.</li> </ul>
<p><b>4 New general ledger system</b></p> <p>SQA partially implemented a new general ledger system in 2017. There is a risk of data migration errors resulting in the misstatement in the financial statements.</p>	<p>SQA's internal auditors, Scott Moncrieff, carried out an audit on migrated balances post go live. The audit was clean and did not pick up any areas of concern.</p>	<ul style="list-style-type: none"> <li>• Perform an initial system review to gain an understanding of the new ledger system.</li> <li>• Review balances and transactions in the old and new systems.</li> <li>• Review and consider the work of internal audit on data migration.</li> <li>• Perform additional data validation and completeness checks as required.</li> </ul>
<p><b>5 Submission of unaudited accounts and working papers</b></p> <p>The unaudited accounts and working papers were submitted to external audit later than anticipated in 2016/17 as SQA worked to their established year end timetable. A number of changes and adjustments were also required before the Independent Auditor's Report could be issued.</p> <p>There is a risk that the accounts and supporting documentation are not provided in line with agreed timescales and to the required quality. This could result in additional time and resources from external audit and, potentially, a subsequent increase in audit fee.</p>	<p>SQA has a proposed timetable aimed at delivering an unaudited set of accounts along with full working papers, free from omissions and errors, to the audit team on the first day of the audit.</p>	<ul style="list-style-type: none"> <li>• Agreed timetable for submission of accounts and working papers (See Exhibit 4).</li> <li>• Maintain communications with finance staff to understand progress against timescales.</li> <li>• Liaise with staff to resolve matters at an early stage.</li> </ul>

## Reporting arrangements

**4.** This annual audit plan and the outputs detailed at [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).

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

6. We will provide an independent auditor's report to SQA, the Auditor General for Scotland and the Scottish Parliament 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 during the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit Committee / Board Date
Annual Audit Plan	28 February 2018	5 March 2018
Interim report to management	27 April 2018	21 May 2018
Annual Audit Report	13 July 2018	30 July 2018
Independent Auditor's Report	16 August 2018	16 August 2018

### Audit fee

7. The agreed audit fee for the 2017/18 audit of Scottish Qualifications Authority is £46,280 (£45,580 2016/17). In determining the audit fee we have taken account of the risk exposure of Scottish Qualifications Authority, 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 14 May 2018.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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 annual accounts 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 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 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:

- whether they give a true and fair view of the financial position of SQA as at 31 March 2018 and its expenditure and income for the year then ended
- whether the annual accounts 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 (FRoM)
- whether the annual accounts have been properly prepared in accordance with the requirements of the Education (Scotland) Act 1996, the Public Finance and Accountability (Scotland) Act 2000 and directions made by 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 the financial statements present a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements. Our calculated materiality levels are set out at [exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

## Exhibit 3

### Materiality levels

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 budget* for 2017/18.	£807,000
<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 50% of planning materiality.	£404,000
<b>Reporting threshold</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 4% of planning materiality and rounded.	£32,000

\*Source: SQA Corporate Plan 2017-20

16. Items can be material by nature, rather than value; for example, a failure to comply with legislation. We review other information published with the financial statements including the management commentary, annual governance report and the remuneration report and report to the Board as necessary.

#### 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 annual accounts with complete working papers package	14 May 2018
Consideration of unaudited financial statements by those charged with governance	21 May 2018
Latest date for final clearance meeting with Director of Finance	13 June 2018
Agreement of audited unsigned annual accounts	13 July 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	
Issue of signed independent auditor's report	16 August 2018

#### 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, an external accountancy firm.

### Adequacy of internal audit

**19.** We have concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound reporting procedures in place.

### Areas of internal audit reliance

**20.** To support our audit opinion on the financial statements we plan to place formal reliance on internal audit's review of data migration following the implementation of a new ledger system during 2017.

**21.** We will review other internal audit reports in considering our wider dimension audit responsibilities.

### Audit dimensions

**22.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements, [exhibit 5](#).

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## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

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### Financial sustainability

**23.** As external auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit of the financial statements. We also comment on the entity's financial sustainability in the medium and longer term. We will carry out work and conclude on the following in 2017/18:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term; including the potential impact of the end of the public sector pay cap, new financial powers and EU withdrawal
- arrangements in place to address any funding gaps.

## Financial management

**24.** 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:

- the effectiveness of budgetary control systems in communicating accurate and timely financial performance
- how the SQA has assured itself that its financial capacity and skills are appropriate
- whether the SQA has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

## Governance and transparency

**25.** 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 and challenge
- the quality and timeliness of financial and performance reporting.

## Value for money

**26.** 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.

## Independence and objectivity

**27.** Auditors appointed by the Auditor General 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 Director of Audit Services, 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 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 S—QA.

## 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 (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 and external quality reviews. External quality reviews are conducted by the Institute of Chartered Accountants of Scotland.

**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

## Annual Audit Plan 2017/18

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