

Scottish Qualifications Authority

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Scottish Qualifications Authority
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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of the Scottish Qualification Authority (SQA). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts leading to an independent audit opinion on the financial statements
- audit opinions on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of the wider audit dimensions arrangements in relation to financial sustainability and the annual governance statement
- review of SQA's participation in the National Fraud Initiative.

Impact of Covid-19

2. The Covid-19 pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to the SQA through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we aim to help the SQA promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and the Accountable Officer

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the SQA. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give independent opinions on the financial statements, the regularity of expenditure and income, and other information within the annual report and accounts. We also review and report on the arrangements within the SQA to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Accountable Officer responsibilities

8. The Accountable Officer has 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. The audit of the annual report and accounts does not relieve the Accountable Officer of her responsibilities.

Managing the transition to 2022/23 audits

9. Audit appointments are usually for five years but were extended to six years due to Covid-19. This audit year, 2021/22, is the sixth and final year of the current appointment cycle. We will work closely with our successors to ensure a well-managed transition and keep the SQA informed ahead of any changes.

Annual report and accounts audit planning

Materiality

10. International Auditing Standards require us to determine, with reasonable confidence, whether the financial statements are free from material misstatement. Materiality describes the relative significance of a matter in the context of the financial statements as a whole. The assessment of what is material is a matter of professional audit judgement over both the amount and the nature of the misstatement.

11. The materiality values for the SQA audit are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for the Scottish Qualifications Authority

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the latest audited annual report and accounts (2020/21).	£0.748 million
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 assessed performance materiality at 50% of planning materiality.	£0.374 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.030 million

Source: Audit Scotland

Significant risks of material misstatement to the annual report and accounts

12. Our risk assessment draws on our cumulative knowledge of the SQA, its major transaction streams, key systems of internal control and risk management

processes. It is informed by our discussions with management, discussions with internal audit, attendance at committees and a review of supporting information.

13. Based on our risk assessment process, we identified the following significant risk of material misstatement to the annual report and accounts. This risk has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risk of material misstatement to the annual report and accounts.

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end with a focus on areas of significant risk. • Evaluate significant transactions outside the normal course of business identified through audit testing of income, expenditure, accruals and cut off transactions. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Review accounting estimates for evidence of management bias including assessing any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Consideration of the risks of fraud in the recognition of income and expenditure

14. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for SQA because, while the possibility of fraud exists, we assess this risk to be low. This is due to the nature of SQA's key sources of income, namely Scottish Government funding and exam entry fees.

15. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to income recognition. We have rebutted this risk for SQA, as our assessment of the authority's expenditure streams, including consideration of historical instances of fraud, concludes that the risk of material misstatement as a result of fraud in expenditure to be low.

16. We have not incorporated specific work into our audit plan in these areas over and above our standard audit procedures. Our audit testing will include evaluation of any unusual transactions or accounting entries which are detected.

Other areas of audit focus

17. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the annual report and accounts. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

18. The areas of specific audit focus are:

- **Pension liability:** The pension liability is an area of audit focus due to the material value and significant assumptions used within the complex calculation of this liability.
- **Non-current assets:** We identified a material error in the valuation of fully-depreciated non-current assets in the prior year audit.. There are significant management assumptions in estimating the useful life of SQA's assets, a key determinant of the carrying value of tangible and intangible assets.
- **Entry charges accrual:** SQA receives most of its income from entry charges. These charges are accrued at the year-end based on the services provided to 31 March 2022 in the academic year. There is a degree of subjectivity and uncertainty in the calculation of this material accrual.

Audit risk assessment process

19. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Reporting on audit dimensions

20. The [Code of Audit Practice](#) sets out the wider dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

21. The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus, as a minimum, on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. We plan to apply the small body provisions of the Code to the 2021/22 audit of the Scottish Qualifications Authority.

Duty of Best Value

22. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within the Scottish Qualifications Authority.

Audit dimension risks

23. We have identified audit risks in the areas set out in [Exhibit 3](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2021/22 Audit dimension risks

Audit dimension risk	Sources of management assurance	Planned audit response
1. Replacement of SQA The Cabinet Secretary for Education and Skills announced in June 2021 that the Scottish	<ul style="list-style-type: none"> SQA is committed to working collaboratively to implement any recommendations from this review. 	<ul style="list-style-type: none"> Review of the outcomes and recommendations of the Professor Ken Muir review. Ensure appropriate disclosure is made within

Audit dimension risk	Sources of management assurance	Planned audit response
<p>Qualifications Authority will be replaced.</p> <p>An advisory panel led by Professor Ken Muir is due to report in early 2022 with recommendations on the reform of SQA and Education Scotland.</p> <p>Risk: The timeline of SQA's replacement is unknown. There is a risk that key talent cannot be recruited or retained, that staff morale is impacted, and SQA's business performance is detrimentally affected during any transition period.</p>		<p>the Performance Report in the annual report and accounts.</p> <ul style="list-style-type: none"> • Assessment of SQA's response to the challenges, including engagement with staff and stakeholders.
<p>2. Information security</p> <p>To carry out its functions, SQA depends on the use of unsupported legacy systems and applications.</p> <p>This includes use of the Awards Processing System (APS) which is a key financial system used for the recording of appointee expenditure.</p> <p>Risk: The use of unsupported technologies increases cyber security risks and prevents SQA achieving key accreditations, for example cyber essentials.</p>	<ul style="list-style-type: none"> • A discovery exercise to identify all unsupported legacy systems and applications is being undertaken and is expected to conclude in June 2022. 	<ul style="list-style-type: none"> • Review outcomes of the discovery exercise and monitor actions to address identified risks.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

- 24.** All of our annual audit plans, annual audit reports and other outputs on matters of public interest are published on our website: www.audit-scotland.gov.uk.
- 25.** We will provide an independent auditor's report to the SQA, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the SQA and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.
- 26.** [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Timetable

- 27.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) which has been discussed with management.
- 28.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.
- 29.** We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 4

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	16 May 2022
Latest date for final clearance meeting with the Director of Finance and Corporate Services	By July 2022
Consideration of proposed Annual Audit Report by Audit Committee	29 August 2022
Approval of audited Annual Report and Accounts by SQA Board	14 September 2022
Issue of Annual Audit Report to those charged with governance.	19 September 2022
Issue of Independent Auditor's Report	19 September 2022

Source: Audit Scotland

Audit fee

30. The proposed audit fee for the 2021/22 audit of the Scottish Qualifications Authority is £49,950 (2020/21: £49,020). In determining the audit fee, we have taken account of the risk exposure of the Scottish Qualifications Authority, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

31. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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 out with our planned audit activity.

Other matters

Internal audit

32. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for using internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

33. The internal audit function in 2021/22 is provided by Azets. We have reviewed SQA's internal audit function and found that the internal audit service generally operates in accordance with Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place. From 2022/23 onwards the internal audit function will be provided by Grant Thornton.

34. From our initial review of the internal audit plans, we plan to consider the findings of Internal Audit, where relevant across a range of work including:

- Operational planning
- Appeals 2021
- Effectiveness of engagement with employees and the unions
- 2021 Awarding Programme
- Alternative Certification Model for 2020/21
- Stakeholder engagement
- IT Controls
- Software asset management
- Partnership working

Independence and objectivity

35. Auditors appointed by the Auditor General for Scotland 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 robust arrangements in place 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.

36. The engagement lead (i.e. appointed auditor) for the Scottish Qualifications Authority is Michael Oliphant, Audit 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 Qualifications Authority.

Quality control

37. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

38. 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

39. 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

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

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