

# Scottish Funding Council

Annual Audit Plan 2016/17



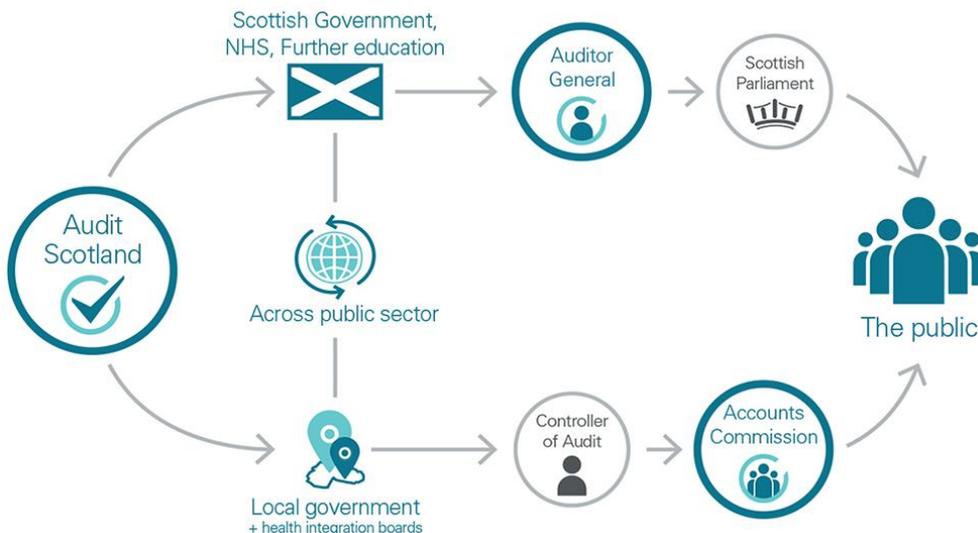
 AUDIT SCOTLAND

Prepared for Scottish Funding Council  
March 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.

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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. 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

2. 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 Funding 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

Audit Risk	Management 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.</p> <p>This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Testing transactions to confirm that they are accounted for in the correct period.</p> <p>Evaluation of any significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>The Scottish Funding Council receives income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Financial Regulations and Procedures provide key controls over systems and processes.</p> <p>Robust programme of internal control and oversight by Audit &amp; Compliance Committee and reported to the Finance Committee.</p> <p>Adequate segregation of duties.</p> <p>Sound budget monitoring</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Management assurance	Planned audit work
	arrangements.	
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits).</p>	<p>As above plus</p> <p>Established procurement/ordering processes and systems with clear delegated authority limits and authorisation processes in place.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>
<p><b>4 Grants paid to colleges and universities</b></p> <p>The main activity of the Scottish Funding Council is the award and payment of grants to colleges and universities. There is a risk that grants paid to institutions are incorrectly recorded in the financial statements.</p>	<p>As above plus</p> <p>Council approval of the funding.</p> <p>Outcome Agreements published on our website.</p> <p>We receive monthly cash flow projections from the colleges which detail payments made to them to date and future projections.</p>	<p>Review of the processes and controls in place for payment of grants.</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>Review Internal Audit's Grant Funding Distribution report.</p>
<b>Wider dimension risks</b>		
<p><b>5 Financial management and sustainability</b></p> <p>SFC's Strategic Plan for 2015-18 contains high level objectives on the use of resources. There are currently no detailed financial plans underpinning the Strategic Plan.</p> <p>To support effective distribution of capital resources, SFC is currently developing a long- term infrastructure strategy</p> <p>Without longer-term planning, there are risks to ongoing financial management and financial sustainability.</p>	<p>Regular and timely production of accurate Management Accounts reviewed by budget holders and senior management.</p> <p>Mechanisms for reliable budgets and frequent forecasts.</p> <p>Strong ownership of budgets and close monitoring of key risks.</p> <p>Scrutiny from Audit &amp; Compliance Committee/ Finance Committee.</p> <p>Careful cash management - we do not draw down cash in advance of need.</p> <p>Our annual operational plan is based on our strategic plan. The operational plan is underpinned by our running cost budget. Longer term plans currently being developed for running costs.</p> <p>We are working on longer term planning for student activity and this work is considered by the Finance Committee.</p> <p>We are part of a Strategic Futures Group which includes representation from HEIs and the Scottish Government. This group is considering the effects of policy change resulting from Brexit and</p>	<p>Follow up and review progress in the development of longer-term plans and the infrastructure strategy.</p> <p>Review progress of the development of reconciliations between the financial year and academic year budget allocations.</p> <p>Review internal audit's work in this area.</p>

Audit Risk	Management assurance	Planned audit work
	widening access.	
<p><b>6 Workforce and capacity</b></p> <p>SFC's responsibilities have increased in recent years, including, for example, the college merger programme and increased support for the governance of colleges and universities.</p> <p>This presents a capacity risk that may also impact on SFC meeting its performance targets.</p> <p>There is a risk that SFC does not have sufficient capacity to deliver its responsibilities.</p>	<p>This is a risk on the SFC risk register.</p> <p>Assistant Director of HR &amp; OD attends weekly Senior Management Team meetings.</p> <p>Senior Management Team reviews its staff resources in its monthly Resource Review meetings.</p> <p>Workforce strategy is under development.</p>	<p>Review the development of workforce planning processes.</p> <p>Review the performance management processes and reports.</p>
<p><b>7 Monitoring the financial health of all colleges and universities</b></p> <p>The SFC is responsible for monitoring the financial health of all colleges and universities.</p> <p>There is a reputational risk in the event of an institution failing and a financial risk if SFC has to intervene to ensure continuity of services.</p>	<p>This is a risk on the SFC risk register which is regularly monitored and reported to SFC Audit and Compliance Committee and Board.</p> <p>Assurance framework for the colleges sector.</p> <p>The Outcome Agreement process.</p> <p>Cross-directorate case conferences.</p>	<p>Consider SFC's arrangements for monitoring and reporting on the financial health of institutions.</p>
<p><b>8 Governance and accountability</b></p> <p>In September 2010 the Auditor General published a report on the role of boards. The report highlighted the need for boards to demonstrate strong leadership and strategic direction.</p> <p>There is a risk that any changes flowing from the Scottish Government's Review of Enterprise and Skills may affect the effectiveness of SFC's governance arrangements.</p>	<p>SFC is compliant with the principles of Corporate Governance in On Board and the SPFM.</p> <p>Risk Management Policy/ Regular review of register.</p> <p>Training of Council/Committee members.</p> <p>Training of Board members of the college sector.</p>	<p>Follow-up on our 2010 Role of Boards report.</p> <p>Monitor the Scottish Government's Review of Enterprise and Skills.</p>
<p><b>9 ICT arrangements</b></p> <p>SFC is currently developing its ICT strategy. The risk of cyber attacks will be considered as part of that process.</p> <p>There is a risk that cyber attacks may lead to data loss and financial and/or reputational loss.</p>	<p>Business Continuity Plan supported by ICT Disaster Recovery Plan.</p> <p>Robust firewalls and reliable anti-virus detection software.</p> <p>Development/finalisation of ICT strategy.</p>	<p>Consider SFC's progress in developing its ICT strategy and its references to cyber security.</p> <p>Review SFC's risk register.</p>

Audit Risk	Management assurance	Planned audit work
<p><b>10 National Fraud Initiative</b></p> <p>The NFI data matching exercise, led by Audit Scotland, allows public bodies to investigate data matches, and if fraud or errors have taken place, stop payments and attempt to recover the amounts involved. The current data matching exercise collected data in October 2016 and match investigation work has started earlier this year.</p> <p>Without appropriate processes to review the matches identified by NFI there is a risk that fraudulent payments are undetected.</p>	<p>SFC is committed to participating and following up matches as appropriate.</p> <p>Results are reported to the Audit and Compliance Committee.</p>	<p>Monitor the SFC's participation and progress with the NFI process.</p> <p>Complete an NFI questionnaire which will reflect the SFC's NFI activity.</p>

## Reporting arrangements

- 3.** 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).
- 4.** 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.
- 5.** We will provide an independent auditor's report to the Scottish Funding Council and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. 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.
- 6.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end i.e. 31 December.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Annual Audit Plan	10 March 2017	30 March 2017
Key Controls Report	17 March 2017	30 March 2017
Education Maintenance Allowance Grant certification work (2016/17)	TBC	TBC
Annual Audit Report including ISA 260 requirements	26 May 2017	8 June 2017
Signed Independent Auditor's report	30 June 2017	N/A
National Fraud Initiative (NFI) questionnaire	30 June 2017	7 September 2017

## Audit fee

**7.** The proposed audit fee for the 2016/17 audit of the Scottish Funding Council is £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 2017.

**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, and guided by the auditing profession's ethical guidance.

**12.** Auditors in the public sector give an independent opinion on 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 Scottish Funding 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 Scottish Funding 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 in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2017 and of its net expenditure for the year then ended
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM
- whether they have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

## Materiality

**15.** Materiality defines the maximum error that we are prepared to accept and still conclude 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 the Scottish Funding 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 2017 based on the latest audited accounts for 2015/16.	£16.5 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.	£12.4 million
<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 1% of planning materiality, but limited to the maximum permitted level in line with our Audit Guide.	£100,000

16. We review and report on other information published with the financial statements including the management commentary, remuneration report and annual governance statement. Any issue identified will be reported to the Audit and Compliance Committee.

#### Timetable

17. 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 dates.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited council financial statements with complete working papers package	3 May 2017
Latest date for final clearance meeting with Assistant Director of Finance	25 May 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	8 June 2017
Independent auditor's report signed	30 June 2017
Latest date for signing of WGA return	30 Sept 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.

### Adequacy of Internal Audit

**19.** Internal audit is provided by Scott-Moncrieff. As Scott-Moncrieff are the internal auditors for a number of shared clients with Audit Scotland, we have completed a central review of the adequacy of their 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.

**20.** Based on our initial review of internal audit's plan for 2016/17 and reports issued to date, in order to support our audit opinion on the financial statements and to avoid duplication of effort, we plan to place formal reliance on the following internal audit reviews:

- Financial Controls Self Assessment
- Grant Funding Distribution

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

- FE Reporting/Accounting Arrangements
- Internal Communications
- Review of Edinburgh College's Business Transformation Plan

## Audit dimensions

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

### Exhibit 5

#### Audit dimensions



### Financial sustainability

**23.** Financial sustainability looks to the medium term (2 to 5 years) and longer term (greater than 5 years) to consider whether effective arrangements are in place to support the delivery of services. 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 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 Scottish Funding Council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### 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:

- Whether the Scottish Funding Council has arrangements in place to ensure systems of internal control are operating effectively.
- Whether the Scottish Funding Council can demonstrate the effectiveness of budgetary control systems in communicating accurate and timely financial performance.
- How the Scottish Funding Council has assured itself that its financial capacity and skills are appropriate.
- Whether the Scottish Funding Council 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 the Scottish Funding Council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with others).
- Whether there is effective scrutiny, challenge and transparency on the body's decision-making and financial and performance reports.
- 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:

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

- There is sufficient focus on improvement and the pace of it.

## 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 the audit is Gordon Smail, Associate Director. Auditing and ethical standards require the appointed auditor, Gordon Smail, 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

**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 is currently reviewing the arrangements for external 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 Funding Council

## Annual Audit Plan 2016/17

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](mailto:info@audit-scotland.gov.uk)

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