

# Scottish Qualifications Authority

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Qualifications Authority and the Auditor General for Scotland

22 August 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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# Key messages

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## 2017/18 annual report and accounts

- 1** The SQA's financial statements give a true and fair view of its state of affairs and its net expenditure for the year.
- 2** The audited part of the Remuneration and Staff Report, Performance Report and Governance Statement were all consistent with the financial statements and properly prepared in accordance with guidance.
- 3** The overall impact of the adjustments to the accounts was to increase the general reserve by £1.361 million.

## Financial sustainability and governance statement

- 4** SQA contained its net spending within the budget allocated by the Scottish Government.
- 5** Net assets increased by £28.867 million to £15.301 million, principally due to a reduction in the estimated pension deficit.
- 6** Systems of internal control operated effectively in 2017/18 with scope for improvement in some areas.

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# Introduction

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1. The scope of our audit was set out in our Annual Audit Plan presented to the March 2018 meeting of the Audit Committee.
2. This report sets out our findings from:
  - the audit of the SQA's annual report and accounts
  - consideration of financial sustainability and governance statement.
3. The management of the SQA is responsible for ensuring the proper stewardship of public funds. This responsibility includes, inter alia:
  - preparing financial statements which give a true and fair view in accordance with the HM Treasury Financial Reporting Manual (FReM) and the Scottish Public Finance Manual (SPFM).
  - ensuring the regularity of transactions by putting in place systems of internal control
  - maintaining proper accounting records and appropriate governance arrangements
  - preparing a Whole of Government Accounts return.
4. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and guided by the auditing profession's ethical guidance.
5. We undertake our audit in accordance with International Standards on Auditing, the principles contained within the Code of Audit Practice. At the conclusion of our audit, we provide an Independent Auditor's Report for inclusion in the Annual Report and Accounts. The Independent Auditor's Report sets out our opinions on:
  - whether the financial statements give a true and fair view of the state of the affairs of SQA and of the net expenditure for the year
  - whether the Annual Accounts have been properly prepared in accordance with the FReM
  - whether the Annual Accounts have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and the Education (Scotland) Act 1996 and directions made thereunder by the Scottish Ministers
  - the regularity of the expenditure and income
  - other matters as directed by the Auditor General
6. An audit of the Annual Accounts is not designed to identify all matters that may be relevant to those charged with governance. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

**7.** It is the auditor's responsibility to provide an Independent Auditor's Report on the Annual Accounts prepared by management, with the oversight of those charged with governance. This does not relieve management of responsibility for the preparation of the annual report and accounts.

**8.** Our annual audit report contains an agreed action plan ([appendix 1](#)). No new actions were identified from the 2017/18 audit; however, we have updated the action plan points brought forward from 2016/17. The Audit Committee should ensure that they are satisfied with proposed actions and have adequate mechanisms in place to assess progress and monitor outcomes.

**9.** We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £46,280, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

**10.** Our aim is to add value to the SQA by providing insight and foresight on financial sustainability and by identifying areas of improvement and encouraging good practice. In so doing, we aim to help the SQA promote improved standards of financial planning, management and decision making.

### **Concluding remarks**

**11.** This report is addressed to both the SQA and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**12.** The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Part 1

## Audit of 2017/18 annual report and accounts



### Main judgements

**The SQA's financial statements give a true and fair view of its state of its affairs and its net expenditure for the year.**

**The audited part of the Remuneration and Staff Report, Performance Report and Governance Statement were all consistent with the financial statements and properly prepared in accordance with guidance.**

**The overall impact of the adjustments to the accounts was to increase the general reserve by £1.361 million.**

### Audit opinions on the annual report and accounts

**13.** The SQA's Annual Report and Accounts for the year ended 31 March 2018 was approved by the Board of Management on 22 August 2018.

**14.** We reported in our Independent Auditor's Report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

The annual report and accounts are the principal means of accounting for the SQA's stewardship of resources and its performance in the use of those resources.

### Submission of annual report and accounts for audit

**15.** We received the unaudited Annual Report and Accounts on 14 May 2018 in line with the agreed audit timetable.

**16.** The unaudited Annual Report and Accounts provided for audit were complete and of a good standard. The finance staff provided good support to the audit team which helped ensure that the final accounts audit process ran smoothly.

### Whole of Government Accounts

**17.** Whole of government accounts (WGA) are the consolidated financial statements for all components of government in the UK. The SQA is required to provide information for the preparation of WGA and external auditors are required to review and provide assurance on the WGA return. The SQA submitted its WGA return by the deadline. We reviewed the return and submitted the required assurance statement to the National Audit Office (NAO) within the specified deadline.

## Risk of material misstatement

**18.** The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and potential impact on the financial statements. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix 2](#) sets out the significant audit risks identified and how we addressed each risk in arriving at our opinion on the financial statements.

## Materiality

**19.** Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law).

**20.** Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit. We assessed the materiality of uncorrected misstatements, both individually and collectively in forming our opinion on the financial statements.

**21.** On receipt of the Annual Report and Accounts and following completion of audit testing, we reviewed our original materiality calculations and concluded that they remained appropriate. Materiality on receipt of the unaudited financial statements is summarised at [exhibit 1](#).

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## Exhibit 1

### Materiality levels

Materiality level	Amount
Overall materiality	£807,000
Performance materiality	£404,000
Reporting threshold	£32,000

Source: Audit Scotland Annual Audit Plan 2017/18

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## How we evaluate misstatements

**22.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality levels.

**23.** Management made adjustments for all monetary misstatements which exceeded the reporting threshold. As a result of these changes the net balance in the expenditure for the year recognised in the Statement of Comprehensive Net Expenditure reduced by £0.734 million and the balance of the General Fund shown in the Statement of Changes in Taxpayers' Equity has increased by £1.361 million. This resulted in net liabilities shown in the Statement of Financial Position reducing by £1.361 million. [Exhibit 2](#) sets out the impact of the only two misstatements of significance.

## Exhibit 2

### Evaluation of misstatements

Misstatement	Impact
Trade and other payables overstated by £1.095 million	Current liabilities reduced by £1.095 million. Reserves increased by £1.095 million.
Deferred income from 2015/16 of £0.920 million was not credited until 2017/18	Total comprehensive net expenditure for the year reduced by £0.920 million.

### Significant findings from the audit (ISA 260)

**24.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan ([appendix 1](#)) has been included.

**25.** The findings include our views about significant qualitative aspects of accounting practices including: significant financial statements disclosures, the impact of any uncertainties, misstatements in the Annual Report and Accounts, accounting estimates and judgements, and the effect of any unusual transactions on the financial statements.

## Exhibit 3

### Significant findings from the audit of the financial statements

Finding	Resolution
<p><b>1. Scottish Government Capital Funding</b></p> <p>SQA receive a capital allocation from the Scottish Government. Although capital expenditure was incurred during the year, the capital funding was not drawn down until 26 March. During the year, expenditure of a capital nature (£1.095 million) was made from revenue. All capital expenditure made in year is included as additions to non-current assets. The corresponding (capital) income from the Scottish Government was categorised as 'deferred capital income' as some of the assets have not been brought into use; this has had the effect of reducing the Statement of financial position.</p>	<p>Management have adjusted the financial statements to correct the position.</p>
<p><b>2. Deferred income balance</b></p> <p>A capital allocation (£0.920 million) had been received from the Scottish Government in 2015/16 and held as a 'deferred income' balance as it had not been allocated to a specific non-current asset. The accounting transaction to correct this legacy issue was incorrect as it was taken directly to the Statement of Cash Flows rather than through the expenditure note.</p>	<p>Management have adjusted the financial statements to correct the position.</p>

Finding	Resolution
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### 3. Staff Report

The FReM stipulates the information to be disclosed in the Staff Report. There were a number of omissions from the Staff Report submitted as part of the unaudited Annual Report and Accounts.

Management agreed to amend the Staff Report and are working on a template that identifies the information that requires to be disclosed.

### 3. Revised estimate of net pension liability

International Accounting Standard 19 – Employee Benefits requires all organisations to disclose information on pension liabilities in their financial statements. Each year the Strathclyde Pension Fund actuary provides a report to the SQA to allow the appropriate entries to be made to the financial statements. The actuarial estimate of the pension fund's assets at 31 March 2018 was underestimated (further explained at paragraph 47). As a consequence, the SQA share of the pension fund assets was understated in the actuary's report. This resulted in an overstatement of the SQA's net pension liability by £2.814 million.

Management requested a recalculation of the SQA's pension liability from the Strathclyde Pension Fund actuary and have adjusted the financial statements to amend the position.

Source: Audit Scotland

## Other findings

**26.** In addition to the issues set out above, and in accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management.

## Follow up of prior year recommendations

**27.** We have followed up actions previously reported and assessed progress with implementation, these are reported in [appendix 1](#) and identified by the prefix b/f (brought forward).

**28.** In total, nine agreed actions were raised in 2016/17. Of these:

- five have been fully implemented
- four have not yet been actioned or are partly actioned

**29.** Overall the SQA has made good progress in implementing these actions. For those actions not yet implemented, revised responses and timescales have been agreed with management at [appendix 1](#).

# Part 2

## Financial sustainability and governance statement



### Main judgements

**SQA contained its net spending within the budget allocated by the Scottish Government.**

**Net assets increased by £28.867 million to £15.301 million, This was principally due to a reduction in the estimated pension deficit.**

**Systems of internal control operated effectively in 2017/18 with scope for improvement in some areas.**

### Financial performance in 2017/18

**30.** The SQA's budget sets out the level of funding required from the Scottish Government. The amount of funding allocated by the Scottish Government is termed the Departmental Expenditure Limit (DEL). The SQA receives an annual allocation of "resource" DEL to fund current expenditure, and "capital" DEL to fund investment in assets. Resource DEL is further split into cash and non-cash (ringfenced) elements.

**31.** The main financial objective for the SQA is to ensure that the financial outturn for the year is within the agreed budget and the DEL allocated by the Scottish Government.

**32.** The SQA had an underspend of £1.904 million on a budget of £32.433 million in 2017/18. The underspend was partly attributable to an unexpected increase in commercial income at the end of the year. In light of this, management have reviewed the budgeted income figure for 2018/19 and made an adjustment to reflect previous years' income profiles. The financial performance against the Departmental Expenditure Limit is shown at [exhibit 4](#).

**33.** Depreciation and impairment are accounting concepts that reflect the cost of use of non-current assets within organisations' financial statements. Scottish Government budget allocations recognise these non-cash costs as "ringfenced" DEL. The SQA did not use its ringfenced DEL allocation in 2017/18; non-cash costs were funded by non-ringfenced resource DEL.

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Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

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### 2017/18 financial position

**34.** The Statement of Financial Position summarises what is owned and owed by and to the SQA. The Statement of Changes in Taxpayers' Equity shows taxpayers' equity which is an accounting measure of the amount invested that has continuing public benefit.

**35.** The financial statements show that the SQA has net assets of £15.301 million, mainly representing net current assets. This is an increase of £28.867 million from the previous year. This was principally due to the reduced actuarial estimate of SQA's future pension obligations in respect of the Local Government Pension Scheme – see paragraph 42 below.

## Exhibit 4

### Performance against Departmental Expenditure Limit (DEL) in 2017/18

Performance	Initial DEL £m	Final DEL £m	Actual drawdown £m	(Under allocation) £m
Resource DEL	1.800	28.208	28.204	(0.004)
Capital DEL	nil	2.325	2.325	nil
<b>Total DEL</b>	<b>1.800</b>	<b>30.533</b>	<b>30.529</b>	<b>(0.004)</b>
Ring-fenced DEL	nil	1.900	0.000	(1.900)
<b>Total</b>	<b>1.800</b>	<b>32.433</b>	<b>30.529</b>	<b>(1.904)</b>

Source: SQA audited Annual Report and Accounts and Budget Allocation and Monitoring letter 2017/18

### Short term financial planning

**36.** The SQA generates income from fees and charges but relies on the Scottish Government providing deficit funding. A significant factor in the SQA's operating net expenditure deficit is the funding model for levying charges for national examination entries. It is the policy of the Scottish Government to keep charges frozen at 2010/11 levels and provide deficit funding to meet the shortfall in the SQA costs.

**37.** In 2017/18, entry fees and other income generated £48.728 million accounting for 62% of total income. Funding from the Scottish Government (£30.529 million) accounted for 32% of total income.

**38.** The Board of Management approved SQA's 2018/19 draft budget in December 2017. The budget forecasts a breakeven position after Scottish Government funding is included. The budget sets out the level of funding required from the Scottish Government for 2018/19 at £31.925 million (£30.264 million resource and ring-fenced DEL and £1.661 million capital DEL). The initial budget allocation monitoring letter set out an initial allocation of £11.017 million.

### Medium to long term financial planning

**39.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**40.** The SQA has a Corporate Plan covering 2018-2021, which includes a financial plan covering the period 2018/19 based on the assumed level of funding and estimated costs against each of its strategic objectives.

**41.** One of the challenges for the SQA is the short term financial planning cycle of the Scottish Government and the resulting difficulty in preparing medium/longer term funding strategies to address its priorities. While this is an obstacle to precise financial planning, management should prepare a 3-5 year rolling budget using what information is available and incorporating sensitivity analysis and scenario planning. In the absence of medium to long term financial planning, the future financial risks facing the SQA may not be clearly understood. In this respect we understand that there is a continuing dialogue between the SQA and Scottish Government on agreeing a future sustainable financial model.

## Pension liability

**42.** A significantly reduced pension liability of £7.998 million (2016/17 £36.336 million) has been included in the Statement of Financial Position. This section is included for information to non-executive directors as we consider that the large movement requires explanation and comment.

**43.** The pension liability represents the difference between expected future payments to pensioners and the underlying value of pension fund assets available to meet this liability.

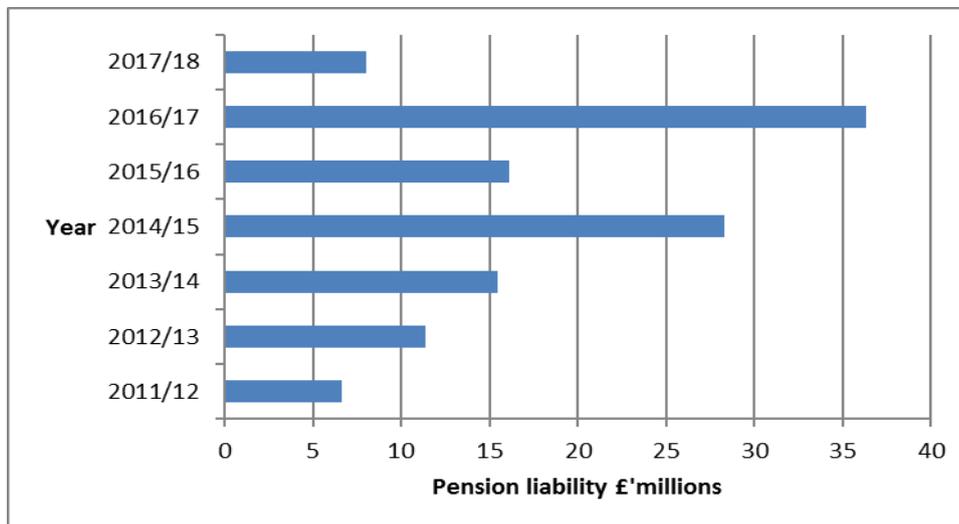
**44.** The SQA is an admitted member of Strathclyde Pension Fund, one of the largest in the UK. Valuation of pension fund assets and liabilities is assessed by an independent firm of actuaries (Hymans Robertson LLP). Annual valuations are dependent on a number of external variables, including projected rates of return on assets, projected rates of price and pay inflation, interest rates and mortality estimates.

**45.** Over the past decade there has been considerable volatility in the valuation of pension liabilities across the public sector. For the SQA, the movement over the past seven years is set out at [exhibit 5](#). Small changes in actuarial assumptions can have a significant impact on the calculation of closing liabilities.

**46.** The pension fund actuary has provided information on the variables which had the greatest impact on the calculation of the 31 March 2018 liability. Note 3 to the financial statements provides further details.

### Exhibit 5

#### SQA movement in net pension liability 2011/12 - 2017/18



Source: Audit Scotland

**47.** International Accounting Standard 19 – Employee Benefits requires all organisations to disclose information on pension liabilities in their financial statements. Pension disclosures are provided annually to participating bodies by the Strathclyde Pension Fund actuary. Actuarial reports are produced in advance of the year end, by calculating an asset valuation prior to the year end and estimating the results for the final months of the year. There was a significant difference between the estimated value of the assets at the year end and the actual outturn reported in the annual accounts of Strathclyde Pension Fund. This error was only around 2.5%, however, when applied to the asset share of individual bodies the differences become material. In the case of the SQA this required an amendment resulting in the reduction of the net pension liability by £2.814 million.

## Systems of internal control

**48.** As part of our 2017/18 audit we identified and tested key controls operating in the main accounting systems. Our objective was to gain assurance that the SQA has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**49.** We concluded that, generally, controls were operating satisfactorily. However, we have suggested enhancements to controls and processes in the interim management letter, and in this report, which would strengthen the internal control environment.

**50.** During the year the SQA's Fraud Response Team was made aware of a potential financial irregularity. The matter is still under investigation. We will monitor the outcome of the investigation and comment in future reports as appropriate.

## Governance statement

**51.** We reviewed the assurances which were provided to the Chief Executive as Accountable Officer by the Executive Management Team regarding the adequacy and effectiveness of the system of internal control.

**52.** Several risks are set out in the governance statement. These include issues such as financial sustainability risk and workforce issues. The statement also summarises internal audit findings and key reports issued in the year.

**53.** We concluded that the information in the governance statement is consistent with the financial statements and complies with guidance issued by the Scottish Ministers.

## Internal audit

**54.** Internal audit provides the Board of Management, the Accountable Officer and the Executive Management Team with independent assurance on SQA's overall risk management, internal control and corporate governance processes. The internal audit function is carried out by Scott-Moncrieff.

**55.** We undertook a central review of the adequacy of internal audit and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**56.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2017/18 we placed formal reliance on the review of data migration following the implementation of the new ledger system during 2017. Also, internal audit reviews were considered to gain an understanding of processes and systems and as part of our wider dimension work.

**57.** The annual internal audit opinion, required by PSIAS and reported to the May meeting of the Audit Committee, concluded that the SQA has a framework of controls in place that provides reasonable assurance regarding; the organisation's governance framework, effective and efficient achievement of objectives, and the management of key risks.

## General Data Protection Regulation

**58.** The EU General Data Protection Regulation (GDPR) came into force across all member states on 25 May 2018. GDPR contains provisions and requirements pertaining to the processing of personally identifiable information and has introduced new and significantly changed data protection concepts.

**59.** Management have advised that the SQA has put in place arrangements to make themselves compliant with the requirements of the new regulations.

However, further work is being undertaken to ensure that all processes and procedures across the business are as efficient and transparent as possible.

### **National performance audit reports**

**60.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 several reports were published which are of direct interest to the Scottish Qualifications Authority. These are summarised at [appendix 3](#).

# Appendix 1

## Action plan 2017/18



No.	Issue/risk	Recommendation	Agreed management action/timing
<b>Follow up of prior year recommendations</b>			
b/f	<p>The current budget process does not include medium to long term financial planning.</p> <p><b>Risk</b></p> <p>In the absence of medium to long term financial planning the future financial risks facing SQA may not be clearly understood.</p>	<p>Although the short term financial planning cycle of the Scottish Government is an obstacle to precise financial planning, management should prepare a 3-5 year rolling budget using what information is available, incorporating sensitivity analysis and scenario planning as necessary.</p>	<p>A first draft of the medium term financial plan is completed and will be discussed with Executive Directors and key stakeholders.</p> <p>Head of Finance</p> <p>December 2018</p>
b/f	<p>Improvements could be made to enhance engagement with the wider stakeholder community.</p> <p><b>Risk</b></p> <p>SQA is seen as having a reduced commitment to openness and transparency.</p>	<p>SQA should consider whether stakeholder engagement could be achieved through promotion of attendance at meetings and/or the use of technology to reach a wider audience.</p>	<p>This is under consideration with discussions at an advanced stage to take a future Board meeting to Dundee and Angus College.</p> <p>Chief Executive</p> <p>December 2018</p>
b/f	<p>SQA should have systems and processes to ensure that it can demonstrate that it is delivering Best Value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.</p> <p><b>Risk</b></p> <p>The organisation is missing opportunities to enhance service delivery</p>	<p>SQA should undertake a periodic formal review of its performance against the Scottish Government Best Value framework.</p>	<p>A formal Benefits Realisation Group has been established which is chaired by the Director of Finance. This group reports on benefits achieved, VFM initiatives being undertaken and strategic initiatives that will deliver long term benefits. As part of the rolling programme this group will review performance against the Scottish Government Best Value Framework.</p> <p>Head of Finance</p> <p>December 2018</p>
b/f	<p>KPIs are used to monitor progress against strategic goals. Updates on progress are regularly submitted to the</p>	<p>KPIs should be reported to the Board of Management at regular intervals.</p>	<p>The KPIs will be submitted to the Board of Management in FY 18/19</p> <p>Chief Executive</p>



**No.**    **Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

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Audit Committee but not to the Board of Management.

Closed

**Risk**

There is a risk that not all NEBMs are receiving sufficient information to enable them to effectively scrutinise and challenge performance.

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# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</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>	<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>	Our audit procedures did not detect evidence of management override of controls.
<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>	<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>	Our audit procedures did not detect any evidence of fraud over income
<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>	<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>	Our audit procedures did not detect any evidence of fraud over expenditure
<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>	<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> </ul>	<p>We performed an initial system review to gain an understanding of the new ledger system and did not identify any control weaknesses that would indicate data migration errors had occurred.</p> <p>Reviewed the work of internal audit on data migration and</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> <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>	confirmed that this did not identify any areas of concern.
<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>	<ul style="list-style-type: none"> <li>Agreed timetable for submission of accounts and working papers</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>	<p>We received the unaudited annual report and accounts on 14 May 2018 in line with our agreed audit timetable.</p> <p>The unaudited annual report and accounts provided for audit were complete and of a good standard. The finance staff provided good support to the audit team which helped ensure that the final accounts audit process ran smoothly.</p>

Source: Audit Scotland Annual Audit Plan 2017/18

# Appendix 3

## Summary of national performance reports 2017/18



		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

# Scottish Qualifications Authority

## 2017/18 Annual Audit Report

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