

# Scottish Qualifications Authority

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for the Scottish Qualifications Authority

February 2019

## 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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# Risks and planned work

1. This audit plan provides an overview of the planned scope and timing of our audit of the Scottish Qualification Authority for 2018/19. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland.
2. Our plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope 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 experience of the authority, discussions with staff, attendance at meetings and a review of supporting information we have identified the following main risk areas for the Scottish Qualification Authority. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are set out at [exhibit 1](#).

## Adding value

4. We seek to add value to the Scottish Qualifications Authority by identifying areas of improvement and recommending and encouraging good practice on financial sustainability, governance, risk management and performance. In so doing, we aim to help the agency promote improved standards, better management and decision making, and more effective use of resources.

## Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<p>1</p> <p><b>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 applicable in this instance.</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>2</p> <p><b>Risk of fraud over income</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud</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"> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	over income, which is presumed to be a significant risk in any audit.		focusing on the areas of greatest risk.
3	<p><b>Risk of fraud over expenditure</b></p> <p>The risk of fraud over expenditure applies due to the variety and extent of expenditure incurred by the authority in the normal course of its business.</p>	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<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>
<b>Wider dimension issues and risks</b>			
4	<p><b>Financial Sustainability</b></p> <p>Although the SQA's initial core budget was increased in 2018/19, it is reliant on Scottish Government budget transfers to achieve a year-end break-even position.</p> <p>The SQA continues to face a risk to its financial sustainability due to budget pressures and uncertainty over future funding allocations.</p>	Ongoing engagement with the Scottish Government.	<ul style="list-style-type: none"> <li>Review financial performance reports.</li> <li>Review of arrangements to secure efficiencies.</li> </ul>
5	<p><b>General ledger system</b></p> <p>SQA has partially implemented a new general ledger system. Phase 3 which will deliver cost allocation and time recording is currently underway. There is a risk of data migration errors resulting in the misstatement in the financial statements.</p>	Review of system acceptance testing.	<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>Perform additional data validation and completeness checks as required.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

5. This annual audit plan and the outputs set out in [exhibit 2](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

6. 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 officer(s) to confirm factual accuracy prior to the issue and publication of final reports.

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

## Exhibit 2

### 2018/19 Audit outputs

Audit Output	Target date	Audit Committee / Board Date
Annual Audit Plan	28 February 2019	18 March 2019
Management Report	30 April 2019	3 June 2019
Annual Audit Report	15 July 2019	29 July 2019
Independent Auditor's Report	21 August 2019	21 August 2019

Source: Audit Scotland

### Audit fee

**8.** The agreed audit fee is £47,210 (2017/18 £46,280). 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 annual report and accounts, with a complete working papers package on 13 May 2019.

**9.** 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 out with our planned audit activity.

### Responsibilities

#### Accountable Officer

**10.** 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 the authority to successfully deliver its objectives.

**11.** The audit of the annual accounts does not relieve the Accountable Officer of her responsibilities.

#### Appointed auditor

**12.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, Audit Scotland's Code of Audit Practice and the auditing profession's ethical guidance.

**13.** Auditors in the public sector give independent opinions on the financial statements and certain other matters included in the annual accounts. 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

## Annual accounts

**14.** The annual accounts audit will be the foundation and source for much 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 tScottish Qualifications Authority 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 Scottish Qualifications Authority 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.

**15.** We will give an opinion on:

- whether the financial statements give a true and fair view of the state of affairs of the Scottish Qualifications Authority as at 31 March 2019 and of the income and expenditure for the year
- whether the annual accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union as interpreted and adapted by the 2018/19 Government Financial Reporting Manual (FRoM)
- whether the annual accounts have been prepared in accordance with the requirements of the Education (Scotland) Act 1996 and the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers
- the regularity of the expenditure and income

## Other information in the annual accounts

**16.** We also review and report on the performance report, governance statement and the remuneration and staff report. We give an opinion on whether these have been prepared in accordance with the appropriate regulations and guidance. We also read and consider any other information in the annual accounts and report any material inconsistencies.

## Materiality

**17.** We apply the concept of materiality in planning and performing our audit. 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



characteristics



responsibilities



principal activities



risks



governance arrangements

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](#).

### Exhibit 3 Materiality values

Materiality	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 2019.	£833,000
<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 60% of planning materiality.	£530,000
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3% of planning materiality.	£26,000

Source: Audit Scotland

### Timetable

18. An agreed timetable is included at [exhibit 4](#) which takes into account submission requirements and planned Audit Committee dates.

### Exhibit 4 Annual report and accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts and working papers package*	13 May 2019
Latest date for final clearance meeting with Director of Finance	14 June 2019
Proposed Annual Audit Report / ISA 260 report to those charged with governance	29 July 2019
Independent auditor's report signed	21 August 2019
Latest date for signing of WGA return	30 September 2019

\* By agreement with SQA management complete pension information may not be available at this date but will be included once received from actuaries

Source: Audit Scotland

### Internal audit

19. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Scott-Moncrieff, an external accountancy firm.

## Adequacy of internal audit

**20.** Internal audit is provided by Scott-Moncrieff. 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

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

## Audit dimensions

**22.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

**23.** 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 on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2018/19 audit of the Scottish Qualifications Authority.

## Governance

**24.** 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 SQA can demonstrate that the governance arrangements in place are appropriate and operating effectively
- the quality and timeliness of financial and performance reporting
- whether there is effective scrutiny, challenge and transparency.

## Financial sustainability

**25.** We will consider the appropriateness of the use of the going concern basis of accounting as part of annual audit of the financial statements. We will also comment on the agency's financial sustainability in the medium term and longer term. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability including the potential impact of the EU withdrawal.
- the arrangements in place to address any identified funding gaps.

## Independence and objectivity

**26.** Auditors appointed by the Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has 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.

**27.** The engagement lead and appointed auditor for the Scottish Qualifications Authority 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 the Scottish Qualifications Authority.

## Quality control

**28.** 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.

**29.** 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 and internal quality reviews. External quality reviews are conducted by the Institute of Chartered Accountants of Scotland.

**30.** 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 2018/19

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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