

Scottish Funding Council

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for the Scottish Funding Council

December 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

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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and Audit Scotland's [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to the Scottish Funding Council (SFC) 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 intend to help SFC promote improved standards of governance, better management and decision making and more effective use of resources.

4. Where appropriate, we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work. This will include, for example, discussions with SFC about good practice in performance reporting. We will also ensure there are clear links between the annual audit work and relevant national performance audits. This will include, for example, work to follow-up recommendations in our 'Scotland's colleges 2019' and 'Finances of Scottish universities' reports.

Audit risks

5. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant audit risks for our 2019/20 audit of SFC. We have categorised these audit risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management</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"> • Testing of journal entries. • Review of accounting estimates. • Testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.

 Audit Risk	Source of assurance	Planned audit work
<p>override of controls that results in fraudulent financial statements.</p>		
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>Auditing Standards refer to the presumed risk of fraud. As most public-sector bodies are net spending bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>The risk of fraud over expenditure exists in SFC due to the complexity and extent of expenditure incurred in carrying out its functions.</p>	<p>Key controls working effectively.</p> <p>Sound budgetary control and monitoring arrangements in place.</p> <p>Counter-fraud arrangements well established and working effectively.</p>	<ul style="list-style-type: none"> • Testing of expenditure transactions focusing on the areas of greatest risk. • Substantive cut-off testing of expenditure to ensure it is recognised in the correct financial year.
<p>3 Grant payments to colleges and universities</p> <p>The main activity of SFC is the award and payment of grants to colleges and universities.</p> <p>Due to the complexities around different year end dates and re-profiling of budgets, there is a risk that grants paid to institutions are incorrectly recorded in the financial statements.</p>	<p>Sound budgetary controls and monitoring arrangements in place.</p> <p>Outcome agreements with colleges and universities.</p> <p>SFC receives monthly cash flow projections from the colleges which detail payments made to date and future projections.</p>	<ul style="list-style-type: none"> • Testing of grant funding controls. • Substantive testing of formula-based grant awards to individual bodies. • Testing of grant commitments at the year end. • Substantive cut-off testing of grant payments to ensure they are recognised in the correct financial year.
<p>Wider dimension risks</p>		
<p>4 Financial sustainability</p> <p>SFC and the colleges and universities it funds face financial pressures including increasing pay and pension costs.</p> <p>SFC has provided colleges and universities with financial planning assumptions covering a six and four-year period respectively, but its own financial plans for its sector budgets continue to cover a one-year period.</p> <p>There is a risk that SFC does not have the information available to support a longer-term view of its financial position and its options for future funding.</p>	<p>The outcome agreement process and related guidance.</p> <p>Colleges' six-year financial forecasts.</p> <p>Universities' four-year strategic plan forecasts.</p>	<ul style="list-style-type: none"> • Review SFC's progress in preparing medium to long-term financial plans for the further and higher education sectors. • Consider SFC's arrangements for monitoring and reporting on the financial health of institutions.
<p>5 Value for money</p> <p>We reported last year that there is scope for SFC to tell a clearer story about how it spends its money and what it achieves in the performance report section of its annual report</p>	<p>SFC has agreed to consider the content of its 2019/20 performance report to ensure it provides users of the annual report and accounts with a more</p>	<ul style="list-style-type: none"> • Review SFC's performance report. • Review SFC's progress in addressing the recommendations in the 'Finances of Scottish universities' report.

	Audit Risk	Source of assurance	Planned audit work
	<p>and accounts. This includes its use of financial transactions funding.</p> <p>Since then, the 'Finances of Scottish universities' report identified scope for SFC to improve its reporting on universities' finances. In addition, the Enterprise and Skills Strategic Board 'missions' represent a change in SFC's operating environment, with implications for performance reporting (see paragraphs 32 to 34).</p> <p>There is a risk that SFC does not have appropriate disclosures and is not reporting fully and transparently on key performance measures.</p>	<p>understandable analysis of its performance.</p> <p>SFC's Strategic Framework 2019-22 is aligned with the Strategic Board 'missions'.</p>	<ul style="list-style-type: none"> Review progress in performance reporting and alignment with the Strategic Board's 'missions'.
6	<p>Workforce capacity</p> <p>There are increasing demands on SFC's resources. This includes work to support the Enterprise and Skills Strategic Board, preparing for the implications of EU withdrawal and administering ESF funding to colleges.</p> <p>There is a risk that SFC does not have adequate resources to carry out its core functions and meet the objectives set out in its strategic plan, the Strategic Framework 2019-2022.</p>	<p>Risk of insufficient capacity and resources recognised in risk register and discussed at board meetings.</p> <p>Workforce plan in place that recognises the need for additional resources.</p>	<ul style="list-style-type: none"> Monitor SFC's progress in implementing its workforce plan.

Source: Audit Scotland

6. As set out in Auditing Standards (ISA 240), there is a presumed risk of fraud in 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 the risk of material misstatement caused by fraud in income recognition in 2019/20 because we consider the risk of fraud to be low as 99 percent of SFC's income is grant-in-aid funding from the Scottish Government.

Reporting arrangements

7. 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.

8. 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 officers to confirm factual accuracy.

9. We will provide an independent auditor's report to SFC, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide SFC 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.

Exhibit 2

2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	4 December 2019	11 December 2019
Management Report	27 February 2020	5 March 2020
Annual Audit Report	12 June 2020	19 June 2020
Independent Auditor's Report	30 June 2020	30 June 2020

Source: Audit Scotland

Audit fee

10. The proposed audit fee for the 2019/20 audit of SFC is £73,960 [2018/19: £72,980]. In determining the audit fee, we have taken account of the risk exposure of SFC, 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 accounts with a complete working papers package on 11 May 2020.

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

Audit and Compliance Committee and Accountable Officer

12. 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.

13. The audit of the annual accounts does not relieve management or the Audit and Compliance Committee as those charged with governance, of their responsibilities.

Appointed auditor

14. 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.

15. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. 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

Annual accounts

16. The annual accounts, which include the financial statements, will be the foundation and source for most 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 SFC 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 SFC 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.

17. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers of the state of affairs of SFC as at 31 March 2020 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted by the 2019/20 FReM;
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

Other information in the annual accounts

18. We also review and report on statutory other information published within the annual accounts including the performance report, the annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

19. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

20. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.



characteristics



responsibilities



principal activities



risks



governance arrangements

21. We calculate materiality at different levels as described below. The calculated materiality values for Scottish Funding Council are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

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 for the year ended 31 March 2020 based on the audited accounts for 2018/19.	£18.8 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 calculated performance materiality at 75% of planning materiality.	£14.1 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at the maximum threshold.	£250,000

Source: Audit Scotland

Timetable

22. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

23. The timetable for the financial statements audit is challenging for SFC and the external audit team. To allow us to meet our audit deadlines we will need to receive a final version of the annual accounts, with any audit adjustments, by the date agreed below.

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	11 May 2020
Latest date for final clearance meeting with Director of Finance	8 June 2020
Latest date for receipt of final annual report and accounts with audit adjustments	8 June 2020
Issue of Letter of Representation and proposed independent auditor's report	12 June 2020
Agreement of audited unsigned annual report and accounts	30 June 2020
Issue of Annual Audit Report to those charged with governance	30 June 2020
Independent auditor's report signed	1 July 2020
Latest date for signing of WGA return	30 September 2020

Internal audit

24. Internal audit is provided by Scott-Moncrieff. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards. Subject to completion of this review, we plan to consider internal audit's work as outlined below.

Using the work of internal audit

25. 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 to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning.

26. From our initial review of internal audit plans we plan to consider internal audit work in the following areas:

- workforce planning
- financial controls
- grant funding distribution
- strategic planning
- strategic project funding
- business continuity and disaster recovery.

Audit dimensions

27. 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 management

28. 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 SFC has arrangements in place to ensure systems of internal control are operating effectively
- whether SFC can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how SFC has assured itself that its financial capacity and skills are appropriate
- whether SFC has established appropriate and effective arrangements for the prevention and detection of fraud and corruption
- SFC's accounting for European Social Fund income.

Financial sustainability

29. 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 financial sustainability in the longer term. We define this as medium-term (two to five years) and longer-term (longer than five years) sustainability. 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 SFC can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Governance and transparency

30. 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 SFC can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

31. Value for money refers to using resources effectively and continually improving services. Over the course of our appointment, we will review, conclude and report on whether:

- SFC can provide evidence that it is demonstrating value for money in the use of its resources
- there is a clear link between money spent, outputs and outcomes delivered
- SFC can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it

- SFC assesses its compliance with the principles of Best Value.

32. The Enterprise and Skills Strategic Board published its strategic plan in October 2018. This plan sets out four ‘missions’ together with a number of inter-related actions and recommendations. SFC and the other enterprise and skills agencies are required to align their objectives with these missions.

33. We reported in May 2019, in our [Enterprise and Skills Review Briefing](#), the importance that the agencies are able to demonstrate that:

- actions are being implemented and are having the desired effect
- the pace of change is appropriate
- new or revised performance measures align with the National Performance Framework.

34. As part of our 2019/20 audit work, we will consider whether SFC’s Strategic Framework 2019-2022 and its 2019/20 Operating Plan demonstrates progress towards this ambition. As indicated earlier in this plan, we will review the content and presentation of the performance report to ensure SFC takes the opportunity to communicate how it has applied the funding it receives and what was achieved.

Best Value

35. The Accountable Officer of SFC has a duty to ensure arrangements are in place to secure Best Value. We will review and report on these arrangements.

Independence and objectivity

36. Auditors appointed by the Accounts Commission or 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.

37. The engagement lead (i.e. appointed auditor) for SFC is Gordon Smail, 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 SFC.

Quality control

38. International Standard on Quality Control (UK and Ireland) 1 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.

39. 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 has been commissioned to carry out external quality reviews.

40. 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.

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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

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