

Scottish Funding Council

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

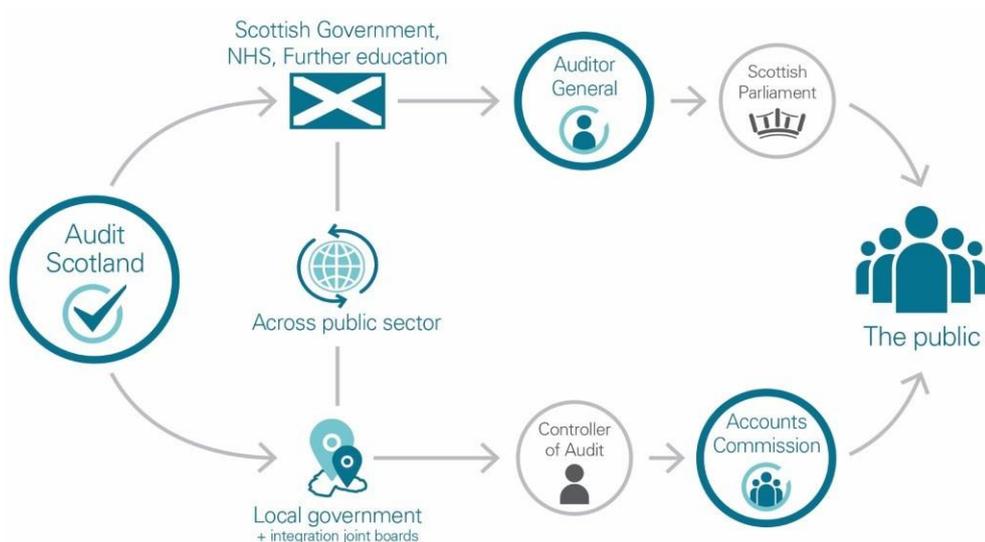
Prepared for Scottish Funding Council

March 2021

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 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.
- 3.** The public health crisis caused by COVID-19 has had a profound effect on every aspect of society. Public services have been affected significantly, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses, and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
- 4.** Public audit has an important contribution to the recovery and renewal of public services. We are responding to the risks to public services and finances from COVID-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, changes to this annual audit plan may be necessary.

Adding value

- 5.** 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.
- 6.** Where appropriate, we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work. We will also ensure there are clear links between the annual audit work and relevant national performance audits.

Audit risks

- 7.** 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 2020/21 audit of SFC. We have categorised these risks into financial statements audit risks and wider dimension audit risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

 Audit risk	Source of assurance	Planned audit work
Financial statements audit risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to 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"> • 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.
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure.</p> <p>The risk of fraud over expenditure exists in SFC due to the high value payments it makes to colleges and universities. SFC also made additional payments to colleges and universities in 2020/21 to mitigate the impact of COVID-19. This places pressure on SFC to ensure funding is allocated in line with requirements.</p> <p>There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</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, including significant COVID-19 payments, 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 cashflow 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.
Wider dimension audit risks		
<p>4 Financial sustainability</p> <p>SFC and the colleges and universities it funds face significant</p>	<p>The outcome agreement process and related guidance.</p>	<ul style="list-style-type: none"> • Review SFC's progress in preparing medium to long-term financial plans for the

financial pressures including the ongoing impact of COVID-19, increasing pay and pension costs, and the loss of European funding streams due to EU withdrawal.

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.

College and university medium-term financial forecast returns.

Coherence and Sustainability Review.

Brexit updates made available on the SFC website.

further and higher education sectors.

- Consider SFC's arrangements for monitoring and reporting on the financial health of institutions.
- Review updates on SFC's work with colleges' and universities' relationship with the EU.

5 Cyber security

Organisations are increasingly threatened by cyber-attacks as evidenced by recent incidents affecting public bodies. SFC is working to strengthen its cyber security arrangements including implementing recommendations from a recent internal audit report and seeking Cyber Essentials Plus accreditation.

There is a risk that a cyber attack could disrupt SFC's key financial systems and lead to loss of data with financial and reputational consequences.

SFC ICT Continuity Strategy.

Risks of cyber security and failure of IT systems recognised in risk register and discussed at board meetings.

- Review SFC's progress in achieving Cyber Essentials Plus Accreditation.
- Review the action taken on the internal audit recommendations.
- Review actions taken by SFC to mitigate the risks of cyber security and failure of IT systems.

6 Workforce capacity

There are increasing demands on SFC's resources. This includes work to support the Enterprise and Skills Strategic Board, implications of EU withdrawal, and administering European funding to colleges and allocation of COVID-19 funding.

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.

Risk of insufficient capacity and resources recognised in risk register and discussed at board meetings.

Workforce plan in place that recognises the need for additional resources.

- Review SFC's workforce plan.
- Consider how resources have been reprioritised across SFC in response to COVID-19.
- Review the early severance packages approved in 2020/21 in terms of the basis for related decisions and how they are reflected in SFC's annual report and accounts.

Source: Audit Scotland

8. As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. As in 2019/20, we have rebutted this presumed risk in 2020/21 because we consider the risk of fraud to be low as 99% of SFC's income is grant-in-aid funding from the Scottish Government.

Reporting arrangements

9. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs are detailed in [Exhibit 2](#), with indicative target dates for completion which we will endeavour to achieve (see references to timetables in paragraph 24). These and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

10. 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.

11. 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 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 during the audit.

Exhibit 2

2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	26 February 2021	5 March 2021
Management Report	3 June 2021	10 June 2021
Annual Audit Report	2 September 2021	9 September 2021
Independent Auditor's Report	2 September 2021	9 September 2021

Source: Audit Scotland

Audit fee

12. The proposed audit fee for the 2020/21 audit of SFC is £75,790 [2019/20: £73,960]. 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 (date to be confirmed).

13. 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

Audit and Compliance Committee and Accountable Officer

14. 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.

15. 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

16. 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.

17. 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

18. 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.

19. 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 2021 and of its net expenditure for the year then ended;
- have been properly prepared in accordance IFRSs as adopted by the European Union, as interpreted by the 2020/21 FReM;
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 2003 and directions made thereunder by Scottish Ministers.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual accounts

20. We also review and report on statutory other information published within the annual accounts including the performance report, annual governance statement and the audited part of 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.

21. 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

22. 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.

23. We calculate materiality at different levels as described below. The calculated materiality values for SFC 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 2021 based on the forecast for 2020/21.	£19.1 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.	£14.3 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

24. 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](#). As per paragraph 4, we will adopt a pragmatic and flexible approach. While our intention is to work to the target dates set out below, these are subject to potential change due to ongoing developments associated with COVID-19.

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	TBC
Latest date for final clearance meeting with Director of Finance	TBC
Latest date for receipt of final annual report and accounts with audit adjustments	TBC
Issue of Letter of Representation and proposed independent auditor's report	TBC
Agreement of audited unsigned annual report and accounts	9 September 2021
Issue of Annual Audit Report to those charged with governance	9 September 2021
Independent auditor's report signed	10 September 2021
Latest date for signing of WGA return	TBC

Internal audit

25. Internal audit is provided through a shared service arrangement with Scottish Enterprise, South of Scotland Enterprise, Skills Development Scotland, and Clyde Gateway. 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 (PSIAS). Subject to completion of this review, we plan to consider internal audit's work as outlined below.

Using the work of internal audit

26. International 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.

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

- Distribution of grant funding
- Key financial controls
- COVID-19 response
- Risk management
- Review of corporate governance
- Outcome agreements
- IT risk assessment.

Audit dimensions

28. 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

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.

Financial management

30. 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
- the appropriateness of SFC's accounting for European Social Fund Income.

Governance and transparency

31. 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

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude, and report on whether SFC can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

33. As part of our 2020/21 audit work, we will consider if the content of SFC's 2020/21 performance report provides users of the annual report and accounts with a comprehensive analysis of its performance.

Best Value

34. 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

35. 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.

36. 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

37. 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.

38. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

39. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

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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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