

# Scottish Qualifications Authority

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Scottish Qualifications Authority

March 2024

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for the 2023/24 audit of Scottish Qualifications Authority (SQA). The main elements of the audit include:
  - an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
  - audit opinions on regularity and other statutory information published within the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
  - consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
  - an Annual Audit Report setting out our conclusions.

## Respective responsibilities of the auditor and the SQA

2. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the Scottish Qualifications Authority. Key responsibilities are summarised below.

### Auditor responsibilities

3. Our responsibilities as appointed 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.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at the SQA. In doing this, we aim to support improvement and accountability.

5. The appointed auditor, and engagement lead, for Scottish Qualifications Authority is Michael Oliphant, Audit Director.

### Scottish Qualifications Authority's responsibilities

6. The SQA is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. It is also required to produce other reports in the annual report and accounts in accordance with statutory requirements and applicable guidance.

7. The SQA has 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 deliver its objectives.

### **Adding Value**

**8.** We aim to add value by: tailoring audit work to the circumstances of the SQA and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit Committee; and by recommending and encouraging good practice. In so doing, we will help the SQA promote improved standards of governance, better management and decision making, and more effective use of resources.

# Annual report and accounts

## Introduction

**9.** The annual report and accounts are an essential part of demonstrating the SQA's stewardship of resources and its performance in the use of those resources.

**10.** Appointed auditors are required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

**11.** We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**12.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2023/24 audit

**13.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for SQA are set out in [Exhibit 1](#).

## Exhibit 1

### 2023/24 Materiality levels for SQA

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the SQA's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£2.1 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance	£1.26 million

materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.

<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. We have set this threshold at 5% of planning materiality.	£0.105 million
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Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**14.** Our risk assessment draws on our cumulative knowledge of the SQA, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, attendance at committees, and a review of supporting information.

**15.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

**16.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

### Exhibit 2

#### 2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</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>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> </ul>

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p><b>2. Valuation of Non-Current Assets</b></p> <p>SQA's 2022/23 balance sheet disclosed non-current assets with a total value of £37.5 million. There is a significant degree of estimation and assumption involved in determining the value of these assets, and a new system has been used to provide calculations for the 2023/24 accounts, while retaining a degree of manual input. As the valuation system is new, and there is a significant element of estimation, we consider this to be an area at higher risk of misstatement.</p>	<ul style="list-style-type: none"> <li>• SQA undertook a full review exercise of its non-current assets during 2022/23 and will be carrying out manual checks and calculations alongside the new system to ensure accuracy and completeness of assets.</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> <li>• Complete an assessment of the new system and estimation techniques used by management in calculating the useful life of SQA's assets.</li> <li>• Review and assess the valuation methodology used for non-current assets</li> </ul>

Source: Audit Scotland

**17.** As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

**18.** We have rebutted this risk for the SQA as, while the possibility of fraud exists, we assess this risk to be low. This is due to the nature of the SQA's main sources of income, namely Scottish Government funding and exam entry fees.

**19.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

**20.** We have rebutted this risk for the SQA, as our assessment of the authority's expenditure streams, including consideration of historical instances of fraud, concludes that the risk of material misstatement as a result of fraud in expenditure is low.

**21.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

### Other areas of audit focus

**22.** As part of our assessment of audit risks, we have identified one other area where we consider there is also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

**23.** The area of specific audit focus is:

- Entry charges accrual: SQA receives most of its income from entry charges. These charges are accrued at the year-end based on the services provided to 31 March 2024 in the academic year. There is a degree of subjectivity and uncertainty in the calculation of this material accrual.

**24.** Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion). We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.



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# Wider Scope and Best Value

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## Introduction

**25.** The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

**26.** In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years)..
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the SQA. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the SQA demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

## Wider scope risks

**27.** We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

**Exhibit 3****2023/24 wider scope risks**

Description of risk	Management's sources of assurance	Planned audit response
<p><b>1. Cyber Security</b></p> <p>A number of recent incidents in Scotland's public sector have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.</p> <p>This is a risk we first reported in our 2021/22 annual audit report to SQA. Last year, we recommended that there was scope to strengthen SQA's security arrangements, however progress in achieving cyber essentials certification has been slow. The authority should ensure it has plans in place to achieve independent accreditation in compliance with the Public Sector Cyber Resilience Framework.</p>	<ul style="list-style-type: none"> <li>• SQA is implementing a programme of actions to increase resilience to cyber threats, including an external assessment and implementation plan to allow SQA to gain cyber essentials accreditation and increasing security awareness among staff.</li> <li>• The authority has highlighted the need to enhance cyber maturity and resilience as an area in its quarterly performance reports, and features on its risk register.</li> </ul>	<ul style="list-style-type: none"> <li>• Consider and assess actions SQA is taking to strengthen its cyber security arrangements and achieve accreditation.</li> </ul>
<p><b>2. Replacement of SQA</b></p> <p>In March 2022, the Scottish Government announced plans to create a new qualifications body, a new national agency for Scottish education and an independent inspectorate body, following independent review. Legislation to replace SQA was delayed and there remains uncertainty around the timeline for transition. There is a risk this may have an adverse impact on staff retention and morale, and operational planning.</p>	<ul style="list-style-type: none"> <li>• SQA has established a reform programme board to contribute to the work associated with the various strands of the education reform programme.</li> </ul>	<ul style="list-style-type: none"> <li>• We will assess the arrangements SQA has in place to support transition to a new body.</li> </ul>

Source: Audit Scotland

**28.** Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for

Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

## **Best Value**

**29. [Ministerial Guidance to Accountable Officers](#)** for public bodies and the **[Scottish Public Finance Manual](#)** (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within the SQA.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**30.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

**31.** We will provide:

- an Independent Auditor's Report to the SQA, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- the SQA and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

**32.** [Exhibit 4](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date of 31 October, due regard is paid to meeting the statutory deadline for laying the accounts of 31 December 2024.

**33.** We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

## Exhibit 4

### 2023/24 Audit outputs

Audit Output	Audit and Risk Committee Date
Annual Audit Plan	4 March 2024
Independent Auditor's Report	18 November 2024
Annual Audit Report	18 November 2024

Source: Audit Scotland

**34.** All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



## Timetable

**35.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

**36.** We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

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### Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	To be agreed
Issue of draft Letter of Representation and proposed Independent Auditor's Report	4 November 2024
Agreement of audited and unsigned annual report and accounts	4 November 2024
Issue of Annual Audit Report to those charged with governance.	18 November 2024
Signed Independent Auditor's Report	To be agreed

Source: Audit Scotland

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## Audit fee

**37.** In determining the audit fee, we have taken account of the risk exposure of the SQA and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £69,160 as set out in [Exhibit 6](#).

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**Exhibit 6****Audit fees (including VAT)**

<b>Fee component</b>	<b>Fees (£)</b>
External Auditor Remuneration	60,440
Pooled costs	650
Sectoral Cap Adjustment	8,070
<b>Total 2023/24 fee</b>	<b>69,160</b>

Source: Audit Scotland

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**38.** In setting the fee for 2023/24, we have assumed that the SQA has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**39.** It is the responsibility of the SQA to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

**40.** While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**41.** The appointed auditor is independent of the SQA in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

**42.** Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**43.** The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of SQA.

## Audit Quality

**44.** Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

**45.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

**46.** To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

**47.** Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.



# Scottish Qualifications Authority

## Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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