

Scottish Qualifications Authority

2018/19 Annual Audit Report



 AUDIT SCOTLAND

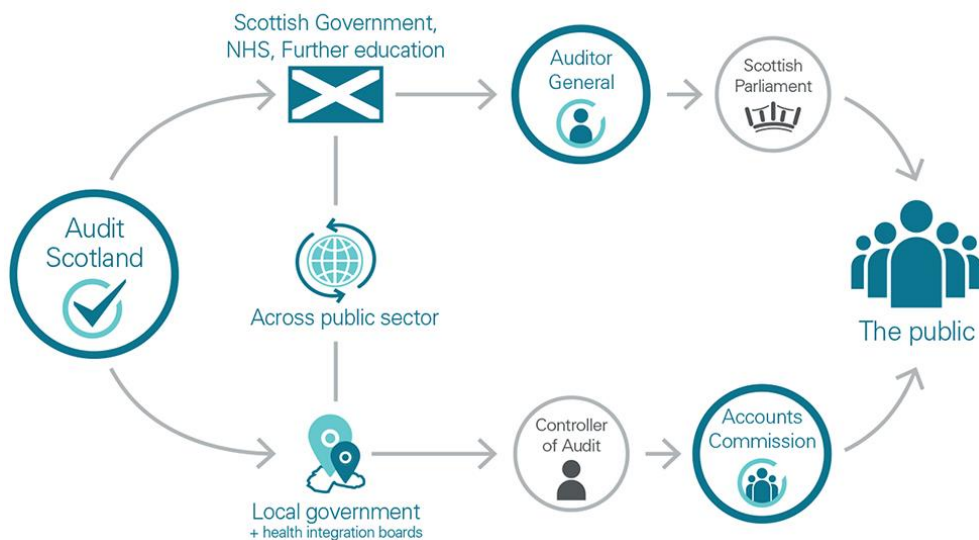
Prepared for the Scottish Qualifications Authority and the Auditor General for Scotland

August 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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Key messages

2018/19 annual report and accounts

- 1** The financial statements of Scottish Qualifications Authority give a true and fair view of the state of the affairs of the body as at 31 March 2019 and of the net expenditure for the year then ended. An unqualified independent auditor's opinion has been issued for the 2018/19 annual accounts.
- 2** Expenditure and income were in accordance with relevant legislation and ministerial guidance.
- 3** The audited part of the Remuneration and Staff Report, Performance Report, and Governance Statement are consistent with the financial statements and properly prepared in accordance with the accounts direction.

Financial sustainability

- 4** The Scottish Qualifications Authority achieved financial balance in 2018/19.
- 5** The Scottish Government has asked SQA to consider reducing its annual grant requirement by £4.75m for 2019/20. The SQA has had a good track record in achieving its savings targets. However, with many of the 'easier' savings having already been made, achieving future savings targets will be a considerable challenge.

Introduction

1. The scope of our audit was set out in our Annual Audit Plan presented to the 18 March 2019 meeting of the Audit Committee.

2. This report comprises the findings from:

- the audit of the SQA's annual report and accounts
- consideration of the SQA's financial sustainability.

3. The management of the SQA is responsible for ensuring the proper stewardship of public funds. This responsibility includes, inter alia:

- preparing financial statements which give a true and fair view in accordance with the HM Treasury Financial Reporting Manual (FRoM) and the Scottish Public Finance Manual (SPFM).
- ensuring the regularity of transactions by putting in place appropriate systems of internal control
- maintaining proper accounting records and appropriate governance arrangements

4. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and guided by the auditing profession's ethical guidance.

5. We undertake our audit in accordance with International Standards on Auditing, the principles contained within the Code of Audit Practice. At the conclusion of our audit, we provide an Independent Auditor's Report for inclusion in the Annual Report and Accounts. The Independent Auditor's Report sets out our opinions on:

- whether the financial statements give a true and fair view of the state of the affairs of SQA and of the net expenditure for the year
- whether the Annual Accounts have been properly prepared in accordance with the FRoM
- whether the Annual Accounts have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and the Education (Scotland) Act 1996 and directions made thereunder by the Scottish Ministers
- the regularity of the expenditure and income
- other matters as directed by the Auditor General

6. The Code of Audit Practice 2016 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. As set out in our 2018/19 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied small body provisions to the 2018/19 audit of the SQA's Annual Accounts.

7. An audit of the Annual Accounts is not designed to identify all matters that may be relevant to those charged with governance. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

8. It is the auditor's responsibility to provide an Independent Auditor's Report on the Annual Accounts prepared by management. This does not relieve management of responsibility for the preparation of the annual report and accounts. Further details of the respective responsibilities of management and the auditor can be found in Audit Scotland's Code of Audit Practice.

9. An action plan is included at [appendix 1 \(page 24\)](#) setting out our recommendations to address the issues identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Agreed management action/timing". Members of the Audit Committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.

10. We confirm that we comply with the Financial Reporting Council's Ethical Standards. We are not aware of any relationships that could compromise our objectivity and independence. We can also confirm that we have not undertaken any non-audit related services and that the previously agreed audit fee of £46,280, is unchanged.

11. Our aim is to add value to SQA by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the organisation promote improved standards of governance, better management and decision making, and more effective use of resources.

12. This report is addressed to both the Accountable Officer and the Auditor General for Scotland and following the SQA Annual Accounts being laid at the Scottish Parliament the report will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

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

Part 1

Audit of 2018/19 annual report and accounts



Main judgements

The financial statements of the SQA give a true and fair view of the state of the affairs of the body as at 31 March 2019 and of the net expenditure for the year then ended. An unqualified independent auditor's opinion has been issued for the 2018/19 annual accounts.

Expenditure and income were in accordance with relevant legislation and ministerial guidance.

The audited part of the Remuneration and Staff Report, Performance Report, and Governance Statement are consistent with the financial statements and properly prepared in accordance with the accounts direction.

Audit opinions on the annual report and accounts

14. The SQA's Annual Report and Accounts for the year ended 31 March 2019 was approved by the Board of Management on 21 August 2019.

15. We reported in our Independent Auditor's Report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement are all consistent with the financial statements and properly prepared in accordance with the accounts direction

The SQA's Annual Report and Accounts are the principal means by which it accounts for the stewardship of resources and its performance in the use of those resources.

Submission of annual report and accounts for audit

16. We received the unaudited annual report and accounts on 13 May 2019 in line with our agreed audit timetable.

17. The unaudited annual report and accounts provided for audit were complete and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Whole of Government Accounts

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

Risks of material misstatement

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

Materiality

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

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

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

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£835,000
Performance materiality	£501,000
Reporting threshold	£25,000

Source: Audit Scotland

Significant findings from the audit

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. The qualitative aspects of the SQA's accounting practices, accounting policies, accounting estimates and disclosures are satisfactory and appropriate to the organisation.

24. Significant findings are summarised at [exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan ([appendix 1](#)) has been included.

Exhibit 2

Significant findings from the audit

Finding	Resolution
<p>1. Accruals</p> <p>The amount for trade and other receivables disclosed in the Statement of Financial Position was overstated by £0.426 million. This was due to the prepayments and accrued income including an irrecoverable VAT element. Adjusting this balance resulted in an increase in net expenditure in the Statement of Comprehensive Net Expenditure.</p>	<p>Management has made the necessary adjustment to the financial statements.</p>
<p>2. Change in employee benefit estimation in relation to holiday pay</p> <p>The basis of the calculation of the employee benefit estimation accrual was inconsistent with that of 2017/18. The accrual was overstated by £0.097 million.</p>	<p>Management has amended the employee benefit to the prior year basis and have made the necessary adjustment to the financial statements.</p>
<p>3. Impairment</p> <p>An impairment of intangible assets of £0.206 million was included within other expenditures in the Statement of Comprehensive Net Expenditure. This should have been included within depreciation and amortisation charges. There was no impact on the net expenditure in the Statement of Comprehensive Net Expenditure</p>	<p>Management has made the necessary adjustment to the Statement of Comprehensive Net Expenditure.</p>
<p>4. Pension liability</p> <p>The impact of two distinct pensions issues, affecting the accounts of many UK public sector bodies, became apparent during 2019. We have summarised the issues in paragraphs 44 to 49 below.</p>	<p>Strathclyde Pension Fund actuaries provided an estimate of the increase in liability in respect of the issues. The SQA's net pension liability increased by £2.423 million from £25.521 million (unaudited annual accounts) to £27.944 million.</p>

Source: Audit Scotland

Evaluation of misstatements

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

26. Management made adjustments for all monetary misstatements which exceeded the reporting threshold. As a result of these changes the net balance in the expenditure for the year recognised in the Statement of Comprehensive Net Expenditure increased by £0.524 million with a consequent reduction in both the Statement of Changes in Taxpayers' Equity and the Statement of Financial Position.

Other findings

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

Follow up of prior year recommendations

28. The Scottish Qualifications Authority has made good progress in implementing our previous year audit recommendations. All four agreed actions have been fully implemented.

Part 2

Financial sustainability



Main judgements

The Scottish Qualifications Authority achieved financial balance in 2018/19.

The Scottish Government has asked SQA to consider reducing its annual grant requirement by £4.75m for 2019/20. The SQA has had a good track record in achieving its savings targets. However, with many of the 'easier' savings having already been made, achieving future savings targets will be a considerable challenge.

Financial performance in 2018/19

29. Broadly, the SQA has two sources of income to cover its operational costs.

- Income from fees and charges related to the provision of examinations and qualifications.
- Central funding, termed “grant in aid”, from the Scottish Government.

The main financial objective for the SQA is to ensure that the financial outturn for the year is within its agreed budget and the grant in aid allocated by the Scottish Government.

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

31. Depreciation, amortisation and impairment are accounting concepts that reflect the cost of the use of non-current (eg buildings, equipment etc) assets within an organisation's financial statements. The Scottish Government provide “ringfenced” non-cash budget allocations to meet these costs. The SQA did not use its ringfenced DEL allocation in 2018/19; non-cash costs were funded by non-ringfenced resource DEL. We reported a similar position in 2017/18. Following advice from Audit Scotland's Professional Support section we advised that finance officers should discuss the situation with Scottish Government sponsors and make the appropriate changes to the financial statements.

32. The SQA had a modest overspend of £0.042 million on its capital DEL budget of £3.858 million in 2018/19. Expenditure was mainly incurred on the implementation of the new IT system. This was offset by an underspend of £0.037 million on revenue expenditure.

33. Overall, actual expenditure incurred was £0.250 million greater than SQA's final DEL allocation, [exhibit 4](#). In the main, this comprised of impairments to software development expenditure.

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

Exhibit 4

Performance against Departmental Expenditure Limit (DEL) in 2018/19

Performance	Initial DEL £m	Final DEL £m	Actual expenditure £m	Over/(under) spend £m
Resource DEL	19.349	30.108	30.071	(0.037)
Capital DEL	nil	3.858	3.900	0.042
Ring-fenced DEL	nil	1.790	2.035	0.245
Total DEL	19.349	35.756	36.006	0.250

Source: Audited Annual Report and Accounts and Budget Allocation and Monitoring letter 2018/19

Short term financial planning

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

35. In 2018/19, entry fees and other income generated £50.184 million accounting for 59% of total income. Funding from the Scottish Government (£35.519 million) accounted for 41% of total income.

36. The Board of Management approved SQA's 2019/20 draft budget in December 2018. The budget forecasts a breakeven position after Scottish Government funding is included. The budget sets out the level of funding required from the Scottish Government for 2019/20 at £31.925 million (£30.264 million resource and ring-fenced DEL and £1.661 million capital DEL). The initial budget allocation monitoring letter set out an initial allocation of £18.483 million.

37. The 2019/20 budget for core activities was subsequently revised upwards requiring an increase in Scottish Government funding of £14.475 million to £33.233 million. The Scottish Government does not allocate the full grant requirement needed by the Scottish Qualifications Authority at the start of the budget year. The gap in funding is referred to as 'additional grant' and is allocated during the year.

38. The Scottish Government has asked SQA to consider reducing its annual grant requirement by £4.75m to £10m as part of a wider savings exercise. Management has advised the Scottish Government that a plan has been established to identify £2m of savings and to meet the costs of the Voluntary Early Release Scheme estimated at £0.9m in 2019/20. However achieving savings beyond this level at this point in the operational year, given the percentage of budget already committed would be extremely challenging. Scottish Government is aware of the position and discussions on the funding requirement are continuing.

Medium to long term financial planning

39. One of the challenges for the SQA is the short-term financial planning cycle of the Scottish Government and the resulting difficulty in preparing medium/longer term funding strategies to address its priorities. The SQA has prepared a medium-term financial plan for financial years 2019/20 to 2022/23. The plan sets out the financial implications of known changes that will occur over this time period.

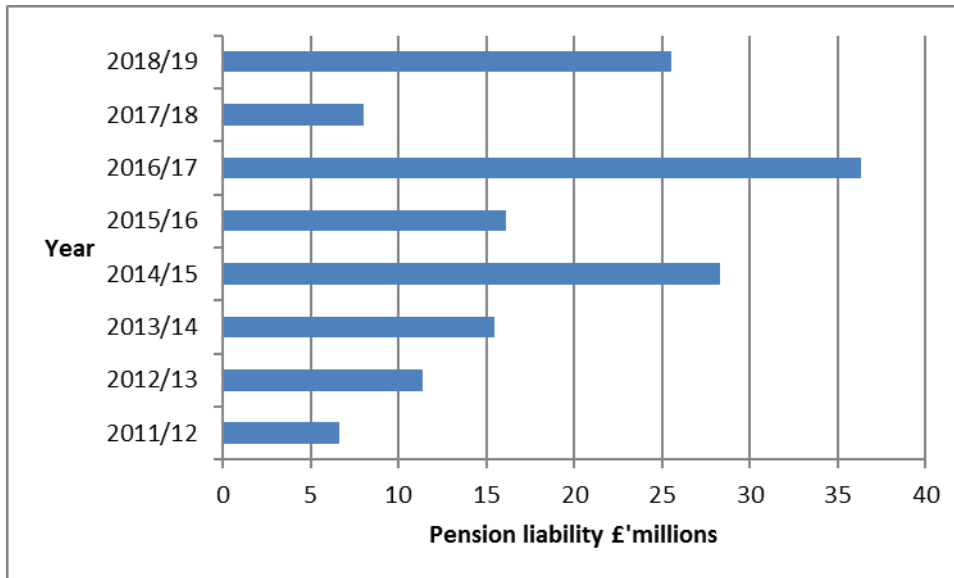
- 40.** The SQA has a three-year Corporate Plan covering the period 2019-2022 which includes a high-level financial plan covering the period based on the assumed level of funding and estimated costs against each of its strategic objectives.
- 41.** The SQA recently produced a Medium-Term Financial Plan which identified the financial implications of known key changes that will occur over the period until 2022/23. In addition, the Business Change and Modernisation Programme sets out the schemes that will be undertaken over a number of years.
- 42.** In subsequent years of the plan the SQA will be required to achieve efficiency savings. Most of the savings required in 2019/20 and beyond have yet to be identified. In recent years the SQA has had a good track record in achieving its savings targets. However, achieving future savings targets will be a considerable challenge, with many of the 'easier' savings having already been made.
- 43.** The SQA has adequate financial planning arrangements in place but remains constrained by the Scottish Government's planning cycle.

Pension liability

- 44.** The SQA has a long-term liability to secure the pensions of its staff. International Accounting Standard 19 – Employee Benefits requires all organisations to disclose information on pension liabilities in the financial statements.
- 45.** The SQA is an admitted member of Strathclyde Pension Fund, one of the largest in the UK with assets of some £23 billion. Valuation of pension fund assets and liabilities is assessed by an independent firm of actuaries (Hymans Robertson LLP). Pension liabilities are calculated annually for each individual body, by the actuary, for inclusion in the financial statements. Annual valuations are dependent on a number of external variables, including projected rates of return on assets, projected rates of price and pay inflation, interest rates and mortality estimates.
- 46.** The Supreme Court handed down a judgement on a key pensions case, the McCloud case on 28 June. In a separate case, relating to contracting out of the state earnings related scheme, the High Court (England) held that pension schemes must eliminate the discriminatory effects of guaranteed minimum pensions. This is a UK wide issue, most public sector defined benefit schemes are affected by the judgements. The judgement of the courts meant that pension liability had to be recalculated.
- 47.** The Strathclyde Pension Fund actuary provided an estimate of the increase in liability in respect of the impact of the judgements. As a consequence, the SQA's net pension liability increased by £2.423 million from £25.521 million (unaudited annual accounts) to £27.944 million.
- 48.** The pension liability represents the difference between expected future payments to pensioners and the underlying value of pension fund assets available to meet this liability.
- 49.** Over the past decade there has been considerable volatility in the valuation of pension liabilities across the public sector. For the SQA, the movement over the past eight years is set out at [exhibit 5](#). Small changes in actuarial assumptions can have a significant impact on the calculation of closing liabilities.

Exhibit 5

SQA net pension liability 2011/12 - 2018/19



Source: Audit Scotland

Systems of internal control

50. As part of our 2018/19 audit we tested key controls operating in the main accounting systems. Our objective was to gain assurance that the SQA has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements. We concluded that, generally, controls were operating satisfactorily.

51. During 2017/18 the SQA's Fraud Response Team was made aware of a potential financial irregularity. The matter is still under investigation. We will monitor the outcome of the investigation and comment in future reports as appropriate.

Governance statement

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

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

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

Openness and transparency

55. We reviewed the SQA website and media and committee minutes and noted that minutes of some board meetings are not timeously published on the website.



Recommendation 1

The SQA should ensure that minutes of board meetings and other documents for publication are available for public review via the website promptly following approval.

Internal audit

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

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

58. The annual internal audit opinion, required by PSIAS and reported to the June meeting of the Audit Committee, concluded that the SQA has a framework of controls in place that provides reasonable assurance regarding; the organisation's governance framework, effective and efficient achievement of objectives, and the management of key risks, except in the area of IT disaster recovery planning.

59. At the request of the Executive Management Team, Internal Audit carried out a review of the SQA's IT disaster recovery planning. A number of significant weaknesses were identified in the SQA's readiness for an IT disaster. It was found that the recovery plans have not been appropriately maintained and are not capable of supporting an effective response to an IT disaster. Management has accepted the findings and have taken action to remedy the situation.

National Fraud Initiative

60. The National Fraud Initiative (NFI) in Scotland brings together data from local government, health boards and other public sector bodies, to help identify and prevent a wide range of frauds against public funds. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

61. The current matching exercise produced 97 matches of which 12 were categorised as priority. All priority matches have been investigated and other matches have been reviewed, [exhibit 5](#). The results of NFI activity are reported to the Audit Committee.

62. Overall, the arrangements in place to investigate matches and the processes employed by SQA are satisfactory. However, the secured website should be updated on a regular basis to allow progress to be monitored more effectively.

Exhibit 5 NFI activity



97

Matches



12

Recommended for
investigation

28

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

EU Withdrawal

63. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

64. Management undertook a Brexit Risk Impact Assessment using a number of scenarios, this was presented to the Board and an action plan has been developed. SQA are currently in dialogue with the Scottish Government to identify impacts and implications on funding as a result of Brexit eventualities.

Dependency on key suppliers

65. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

66. Dependency on key suppliers is not considered a significant risk by the SQA. Management have advised that there are arrangements in place for managing the risk, including:

- undertaking financial (financial due diligence), performance and failure risk assessment for new and renewed contracts by procurement function
- assessment of the continuity arrangements of exam diet key suppliers by procurement function
- ongoing financial, performance and failure risk assessments of significant suppliers
- reduction of risk by splitting tenders and contracts into lots and awarding contracts to a number of suppliers

Appendix 1

Action plan 2018/19



No. **Issue/risk**

Recommendation

**Agreed management
action/timing**

1 **Transparency**

Board minutes and the annual plan have not been posted on the SQA website promptly following approval.

Risk – There is a risk that the SQA is perceived to operate in a manner that is not open and transparent, leading to reputational damage.

Management should ensure that minutes of board meetings and other documents for publication are available for public review via the website promptly following approval.

[Paragraph 57](#)

Agreed, all minutes will be made available for public review via the website promptly following approval.

Janet Brown, Chief Executive
31 August 2019

Appendix 2

Significant audit risks identified during planning

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

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</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>	<p>Our audit procedures did not detect any evidence of management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a significant risk in any audit.</p>	<ul style="list-style-type: none"> Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk. Performed cut-off testing of revenue transactions 	<p>Our audit procedures did not detect any evidence of fraud over income.</p>
<p>3 Risk of fraud over expenditure</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>	<ul style="list-style-type: none"> Analytical procedures on expenditure streams. Detailed testing of transactions focusing on the areas of greatest risk. Detailed testing of journal entries. Review of regularity of expenditure transactions. 	<p>Our audit procedures did not detect any evidence of fraud over expenditure.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>4 Financial Sustainability</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>Ongoing engagement with the Scottish Government.</p>	<p>Reviewed financial performance reports.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>The SQA continues to face a risk to its financial sustainability due to budget pressures and uncertainty over future funding allocations.</p>		
<p>5 General ledger system</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>	<p>Review of system acceptance testing.</p>	<p>Implementation of Phase 3 was postponed until April 2019. There was no impact on the 2018/19 annual report and accounts.</p>

Appendix 3

Summary of national performance reports 2018/19



Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	Major project and procurement lessons
Children and young people's mental health		Sept	Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	Local government in Scotland: Challenges and performance 2019

Scottish Qualifications Authority

2018/19 Annual Audit Report

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