

# Scottish Qualifications Authority

Audit Plan 2020/21



 AUDIT SCOTLAND

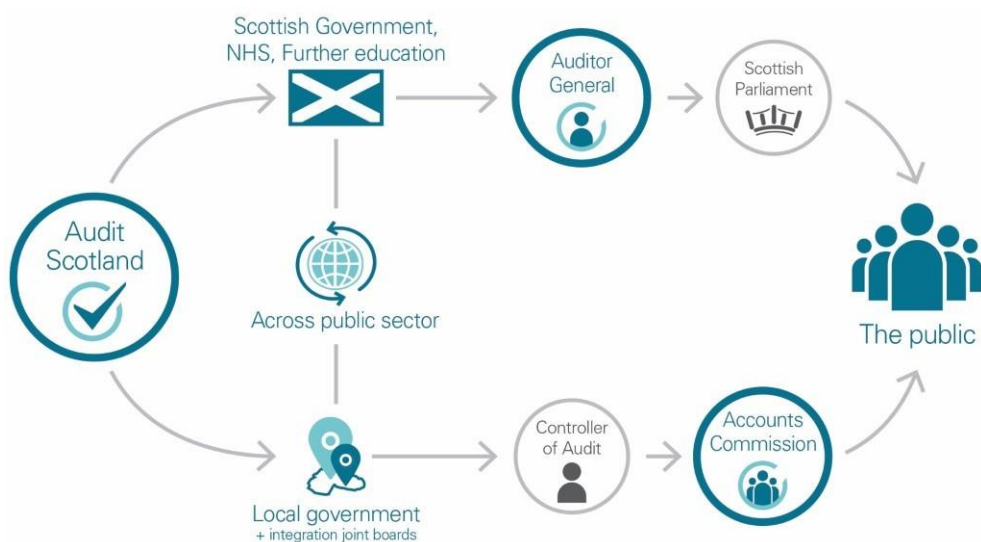
Prepared for by Scottish Qualifications Authority

February 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 a Crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

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## Introduction

1. This audit plan provides an overview of the planned scope and timing of our audit of the Scottish Qualification Authority for 2020/21. Our audit is carried out in accordance with International Standards on Auditing and Audit Scotland's [Code of Audit Practice](#).
2. The plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit. The wider scope of public sector audit includes assessing arrangements for financial sustainability, governance and transparency, and value for money. We make a public report of conclusions on these matters in our annual audit report to the SQA's management board and the Auditor General for Scotland.
3. Dave Richardson, the current appointed auditor, will retire from Audit Scotland on 30 April 2021. Audit Scotland is currently recruiting for various posts and a new auditor will be appointed in due course. Management will be formally notified once a new appointment is made.

## Impact of Covid-19

4. The Auditor General and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work, including annual accounts audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The safety of audit teams and client staff and the delivery of high-quality audits remain paramount.
5. 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, an addendum to this audit plan may be necessary. A January 2021 update paper from Audit Scotland, [Covid-19 What it Means for Public Audit](#), restates the principles and approach we are taking following the reintroduction of significant restrictions in Scotland.

## Adding value


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


## Audit risks

Based on our experience of the SQA, discussions with staff, attendance Audit Committee meetings and a review of supporting information we have identified the key audit risks, [exhibit 1](#).

## Exhibit 1

### 2020/21 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Overarching financial statements and wider dimension risk</b>		
<p><b>1 Impact of Covid-19</b></p> <p>The Covid-19 disruption has had a fundamental impact on what and how services are delivered by the SQA.</p> <p><b>Risk:</b> The impact of Covid-19 will have a pervasive effect on all aspects of the SQA's operations and presents a wide range of risks for the 2020/21 audit.</p>	<p>In response to the Covid emergency SQA's well established business continuity arrangements were invoked. In addition given the challenges of awarding of national qualifications in 2020 and 2021 appropriate governance arrangements were put in place to ensure delivery of awarding and continuity of SQA's activities. These arrangements are kept under constant review.</p>	<ul style="list-style-type: none"> <li>• We will continue to monitor the governance arrangements, including any temporary measures put in place as a result of the pandemic.</li> <li>• We will review SQA's ongoing budget monitoring and medium term financial planning in the context of the challenges and uncertainties it is facing from the Covid-19 disruption.</li> <li>• We will continue to discuss our audit approach, and timetable with management during the year to agree how we can work together to adapt and respond to changing circumstances.</li> </ul>
<b>Financial statements risks</b>		
<p><b>2 Risk of management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<ul style="list-style-type: none"> <li>• In view of the nature of this risk, assurances from management are not appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>3 Risk of expenditure fraud</b></p> <p>Audit Scotland's Code of Audit Practice requires that auditors should plan to address the risk that the financial statements may be materially misstated as a result of expenditure fraud.</p>	<ul style="list-style-type: none"> <li>• Internal controls in operation in the finance team and segregation controls across finance systems.</li> <li>• Participation in the National Fraud Initiative (NFI).</li> </ul>	<ul style="list-style-type: none"> <li>• Analytical procedures on expenditure streams.</li> <li>• Detailed testing of transactions focusing on the areas of greatest risk.</li> <li>• Detailed testing of journal entries.</li> <li>• Review of regularity of expenditure transactions.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>4 Risk of fraud over income</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p>	<ul style="list-style-type: none"> <li>Internal controls in operation in the finance team and segregation controls across finance systems.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of income focusing on the areas of greatest risk.</li> <li>Detailed testing of journal entries.</li> <li>Review of regularity of expenditure transactions.</li> <li>Analytical procedures on income streams.</li> </ul>
<p><b>5 Estimations and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of some material balances disclosed in the financial statements:</p> <ul style="list-style-type: none"> <li>the value of the pension liability is an estimate based on information provided by management and actuarial assumptions.</li> <li>the accrual of the exam fees is based on the service provided to 31 March in the academic year.</li> </ul> <p><b>Risk:</b> Misstatement of liabilities in the financial statements.</p>	<ul style="list-style-type: none"> <li>Significant estimates and judgements are clearly explained in the notes to the accounts.</li> <li>Valuation of pension liabilities by independent actuaries.</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of the appropriateness of the actuarial assumptions.</li> <li>Establish officers' arrangements for assessing the impact of any movement in fund values between the valuation date and the year end.</li> <li>Focused testing of pension disclosures.</li> <li>Review appropriateness of accruals.</li> <li>Review actual experience of significant estimates made in the prior year.</li> </ul>

Source: Audit Scotland planning files

## Reporting arrangements

**7.** This audit plan and the outputs at [exhibit 2](#) will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**8.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy prior to the issue and publication of final reports.

## Exhibit 2 2020/21 Audit outputs

<b>Audit output</b>	<b>Audit Scotland target date</b>	<b>Audit Committee date</b>
Annual Audit Plan	15 March 2021	15 March 2021
Management Report	14 June 2021	14 June 2021
Independent Auditor's Report	31 October 2021	1 September 2021
Annual Audit Report	31 October 2021	1 September 2021

Source: Audit Scotland planning guidance

**9.** We will provide an independent auditor's report to the management board, the Auditor General and the Scottish Parliament setting out our opinions on the annual report and accounts. We will provide the management board and Auditor General with a report on the 2020/21 audit, containing observations and recommendations on significant matters which have arisen during the audit.

## Audit fee

**10.** The agreed audit fee for 2020/21 is £49,020 [£47,850 in 2019/20]. In determining the audit fee, we have taken account of the risk exposure of the organisation, the management assurances in place and the level of reliance we plan to take from the work of internal audit.

**11.** Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### Accountable Officer

**12.** The Accountable Officer is responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity. The audit of the annual report and accounts does not relieve the Accountable Officer of her responsibilities.

### Appointed auditor

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

# Audit scope and timing

## Annual report and accounts

**14.** The annual report and accounts, which includes the financial statements, will be the foundation and source for much of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the SQA 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 these will be disclosed 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 from material misstatement.

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

- whether the financial statements give a true and fair view of the state of affairs of the SQA and of its income and expenditure for the year;
- whether the annual report and accounts have been properly prepared in accordance with the 2020/21 Government Financial Reporting Manual (FReM);
- whether the annual report and accounts have been prepared in accordance with relevant legislation;
- the regularity of the expenditure and income.

## Other information in the annual report and accounts

**16.** We also review and report on other information published as part of the annual report and accounts, including the performance report, governance statement and the remuneration and staff report. We give an opinion on whether they have been prepared in accordance with regulations and guidance.

**17.** We also review the content of other information for consistency with the financial statements and with our knowledge of the SQA. We report any uncorrected material misstatements in other information.

## Materiality

**18.** We apply the concept of materiality in planning and performing the audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements present a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit



characteristics



responsibilities



principal activities



risks



governance arrangements



adjustments on the financial statements in forming our opinions in the independent auditor's report. Our calculated materiality levels for SQA are set out at [exhibit 3](#).

### Exhibit 3 Materiality levels

Materiality	Amount
<b>Planning materiality</b> – This is the figure we use in assessing the overall impact of potential adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2020.	£0.973 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£0.584 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£0.020 million

Source: Audit Scotland planning files

### Timetable

**19.** Audit Scotland expects the issue of independent auditor's reports by 31 October 2021. In common with audited bodies we face resourcing challenges arising from the Covid-19 disruption. Our prime objective is to provide a high quality audit on a cost efficient basis while ensuring the safety of client and audit staff.

**20.** We plan to complete the audit and issue an independent auditor's report on 1 September 2021, to synchronise with management board and audit committee meeting dates. However, if it becomes apparent that we cannot achieve this without compromising our prime objective, then our timetable may need to be amended. If this happens, we will communicate this to management at the earliest opportunity with a view to agreeing a revised completion timetable.

**21.** Notwithstanding the foregoing, we include an agreed timetable at [exhibit 4](#), which takes into account submission requirements and planned meeting dates.

### Internal audit

**22.** The internal audit function is provided by Azets, an international brand, of which Scott Moncrieff now forms part. We performed a formal review of internal audit in January 2021 and concluded that it operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound reporting procedures in place.

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. From our initial review of internal audit plans we plan to place formal reliance on internal audit work on payroll and expenses and forecasting and budgeting control.

## Exhibit 4 Annual report and accounts timetable

 Key stage	 Date
Submission of unaudited Annual Report and Accounts for audit	10 May 2021
Latest date for clearance meeting with Director of Finance	23 July 2021
Consideration of proposed Annual Audit Report by Audit Committee	16 August 2021
Approval of audited Annual Report and Accounts by SQA Board	1 September 2021
Issue of Independent Auditor's Report	1 September 2021
Issue of Annual Audit Report	

Source: Audit Scotland planning files

### Audit dimensions

**23.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2020/21 audit of the Scottish Qualifications Authority.

### Independence and objectivity

**24.** 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.

**25.** The current appointed auditor and engagement lead for SQA is Dave Richardson, Senior Audit Manager. Auditing and ethical standards require the engagement lead 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 SQA.

### Quality control

**26.** The international standard on quality control 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 and opinion is appropriate in the circumstances.

**27.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland. 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 a programme of independent quality reviews.

**28.** 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 or directly to Audit Scotland's Audit Quality and Appointments team.

# Scottish Qualifications Authority

## Annual Audit Plan 2020/21

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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