

# Scottish Qualifications Authority

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Scottish Qualifications Authority

13 March 2023

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of the Scottish Qualifications Authority (SQA). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the financial statements leading to an independent audit opinion
- independent audit opinions on regularity and other statutory information published within the annual report and accounts including the Performance Report, the 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
- consideration of Best Value arrangements

## Adding value

2. We are pleased to continue our appointment as the external auditor of SQA for 2022/23. We aim to add value to the SQA through our external audit work by being constructive and forward looking, by identifying and encouraging good practice and making recommendations for improvement. In so doing, we will help SQA promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and the SQA

3. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the SQA. Key responsibilities are summarised below.

### Auditor responsibilities

4. 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.

5. 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.

## **Scottish Qualification Authority's responsibilities**

- 6.** SQA is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.
- 7.** 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 their objectives.

# Financial statements audit planning

## Introduction

8. 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.

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

## Materiality

10. 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 our audit to determine with reasonable confidence 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 2022/23 audit

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

## Exhibit 1

### 2022/23 Materiality levels for SQA

| Materiality   | Amount       |
|---|--------------|
| <p><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 2023 we have set our materiality at 1% of gross expenditure based on the audited financial statements for 2021/22.</p> | £0.8 million |
| <p><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 could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 50% of planning materiality.</p>   | £0.4 million |

**Reporting threshold** – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £0.040 million

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

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

**13.** 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.

**14.** 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 risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2022/23 Significant risks of material misstatement to the financial statements

| Significant risk of material misstatement   | 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 International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud</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> <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> </ul> |

| Significant risk of material misstatement  | Sources of assurance   | Planned audit response  |
|--|--|---|
| because of management's ability to override controls that otherwise appear to be operating effectively.  |  | <ul style="list-style-type: none"> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul> |
| <p><b>2. Valuation of Non-Current Assets</b></p> <p>There are significant management assumptions in estimating the useful life of SQA's assets, a key determinant of the carrying value of tangible and intangible assets.</p> | SQA have undertaken a full review exercise of its Non-Current Assets during 2022/23. | <ul style="list-style-type: none"> <li>• Complete an assessment over the estimation techniques used by management in calculating the useful life of SQA's assets.</li> <li>• Review the valuation methodology used for non-current assets.</li> </ul>                   |

Source: Audit Scotland

**15.** As set out in International Standard on Auditing (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.

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.

**16.** 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.

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.

**17.** As a result, we have not incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

### **Other areas of audit focus**

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

**19.** The areas of specific audit focus are:

- Pension liability: The pension liability is an area of audit focus due to the material value and significant assumptions used within the complex calculation of this liability.
- 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 2023 in the academic year. There is a degree of subjectivity and uncertainty in the calculation of this material accrual.
- IFRS 16: SQA require to comply with the new accounting requirements for IFRS 16 - Leases. The effect of IFRS 16 is to reclassify leases that were previously treated as operating leases, requiring capitalisation of the underlying assets. All future lease payments will need to be recognised as a Right of Use Asset together with a corresponding lease liability in the Statement of Financial Position.



# Wider Scope and Best Value

## Introduction

**20.** The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

**21.** In summary, the four wider scope areas cover the following:

- **Financial management** 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** – 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 the financial sustainability of the SQA.
- **Vision, leadership and governance** – we conclude on the arrangements 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

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

### Exhibit 3

#### 2022/23 wider scope risks

| Description of risk  | Sources of assurance  | Planned audit response   |
|--|---|--|
| <b>1. Replacement of SQA</b><br>The SQA is to be replaced by a new | SQA are preparing a roadmap which will confirm the work to be carried | <ul style="list-style-type: none"> <li>• Review the roadmap for the transition to the new organisation.</li> </ul> |

| Description of risk  | Sources of assurance  | Planned audit response  |
|--|---|---|
| <p>qualifications body in 2024.</p> <p>There remains uncertainty around what the new approach to education delivery will look like and the impact the transfer could have on SQA's current operations.</p> <p><b>Risk:</b> There is a risk that key talent cannot be recruited or retained, that staff morale is impacted, and SQA's business performance is detrimentally affected during any transition period.</p>  | <p>out prior to the transition and identify key stages/milestones in the process.</p>   |   |
| <p><b>2. Information Security</b></p> <p>To carry out its functions, SQA depends on the use of unsupported legacy systems and applications. This includes use of the Awards Processing System (APS) which is a key financial system used for the recording of appointee expenditure.</p> <p><b>Risk:</b> The use of unsupported technologies presents a risk to the continuity of IT operations. It also increases cyber security risk in general and prevents SQA achieving key accreditations, for example cyber essentials.</p> | <p>Cyber risks are being escalated to the Corporate Risk Register to ensure appropriate scrutiny over approach to cyber security.</p> | <ul style="list-style-type: none"> <li>• Review the general IT controls in place at SQA in order to mitigate cyber risk.</li> <li>• Monitor the steps taken to mitigate the risks around legacy systems.</li> </ul> |

Source: Audit Scotland

**23.** Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider climate change and cyber security threats.

### **Climate Change**

**24.** Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change. In 2022/23, the Auditor General and the Accounts Commission are developing a programme of work on climate change.

**25.** In 2022/23, we will gather information on the SQA's arrangements for responding to climate change, covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

### **Cyber Security**

**26.** There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider the SQA's arrangements for managing and mitigating cyber security risks.

### **Duty of Best Value**

**27.** [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

**28.** All Annual Audit Plans and outputs, as 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).

**29.** 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.

**30.** 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. We will provide the SQA and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**31.** [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2023.

## Exhibit 4 2022/23 Audit outputs

| Audit Output                 | Audit Committee Date |
|------------------------------|----------------------|
| Annual Audit Plan            | 13/03/2023           |
| Independent Auditor's Report | 28/08/2023           |
| Annual Audit Report          | 28/08/2023           |



Source: Audit Scotland

## Timetable

**32.** 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 the proposed timetable for the audit at [Exhibit 5](#) that has been agreed with management.

**33.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. 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.

## 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. | 22 May 2023  |
| Latest date for final clearance meeting with the Director of Finance   | 7 August 2023  |
| Consideration of proposed Annual Audit Report by Audit Committee   | 28 August 2023   |
| Approval of audited Annual Report and Accounts by SQA Board  | 13 September 2023  |
| Issue of Annual Audit Report to those charged with governance.   | 19 September 2023  |
| Signed Independent Auditor's Report  | 19 September 2023  |

Source: Audit Scotland

## Audit fee

**34.** In determining the audit fee, we have taken account of the risk exposure of the SQA and the planned management assurances in place. The proposed or agreed audit fee for 2022/23 is £65,230 as set out in [Exhibit 6](#).

**35.** Our fees have increased in 2022/23 to reflect the current audit market and the rising costs of delivering high-quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work that audit must cover.

## Exhibit 6 Audit fees (including VAT)

| Fee component                 | Fees (£) |
|-------------------------------|----------|
| External Auditor Remuneration | 57,020   |

| Fee component                        | Fees (£) |
|--------------------------------------|----------|
| Pooled costs                         | (900)    |
| Contribution to Audit Scotland costs | 1,620    |
| Sectoral Cap Adjustment              | 7,490    |
| 2022/23 Audit fee                    | 65,230   |

Source: Audit Scotland

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**36.** In setting the fee for 2022/23 we have assumed that the SQA has effective governance arrangements and will prepare comprehensive and accurate 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

**37.** 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.

**38.** While we are not planning to place formal reliance on the work of internal audit in 2022/23, 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

**39.** Auditors appointed by the Auditor General for Scotland 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.

**40.** 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**41.** The appointed auditor and engagement lead for the SQA is Michael Oliphant, 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 the SQA.

## Audit Quality

**42.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**43.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

**44.** ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**45.** Audit Scotland is committed to delivering high-quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**46.** 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.



# Scottish Qualifications Authority

## Annual Audit Plan 2022/23

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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