

Scottish Qualifications Authority

2022/23 Annual Audit Report



 AUDIT SCOTLAND

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

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Key messages

2022/23 annual report and accounts

- 1 An unqualified independent auditor's report has been issued for the 2022/23 annual report and accounts.
- 2 In all material respects, expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.
- 3 The performance report, governance statement and remuneration and staff report are consistent with the accounts and properly prepared in accordance with guidance.

Financial management and sustainability

- 4 SQA reported an overall underspend of £0.314 million against Scottish Government resource funding totalling £43.539 million in 2022/23, with reported in-year savings of £8.532 million
- 5 The SQA's budget for 2023/24 has increased to £113.2 million, reflecting planned expenditure associated with education reform and increased staff costs.
- 6 There are plans to improve financial processes within the authority, but progress in producing a medium-term financial plan has been delayed due to significant uncertainties around the future of the organisation

Vision, leadership and governance

- 7 Legislation to replace the SQA by has been delayed. The authority continues to supports the Scottish Government's plans for reform while it carries out its core functions.
- 8 Effective governance and decision-making arrangements are in place.

Use of resources to improve outcomes

- 9 Board members are provided with regular updates on performance and progress against the authority's strategic outcomes
- 10 The performance report in the annual accounts provides a comprehensive picture of SQA's activities, but could be improved by providing concise key messages

Introduction

1. This report summarises the findings from the 2022/23 annual audit of the Scottish Qualifications Authority (SQA). The scope of the audit was set out in an annual audit plan presented to the 13 March 2023 meeting of the Audit Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of SQA's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the board of SQA and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities and reporting

3. The SQA has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Ministers. The authority is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

4. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

5. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of SQA from its responsibility to address the issues we raise and to maintain adequate systems of control.

6. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor independence

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £65,230 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

An unqualified independent auditor's report has been issued for the 2022/23 annual report and accounts.

In all material respects, expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.

The performance report, governance statement and remuneration and staff report are consistent with the accounts and properly prepared in accordance with guidance.

Audit opinions on the annual report and accounts are unmodified

8. The board approved the annual report and accounts for the Scottish Qualifications Authority for the year ended 31 March 2023 on 6 September 2023. As reported in the independent auditor's report, the audit opinions were that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was assessed as £1.1 million

9. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected

to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

10. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£1.1 million
Performance materiality	£550,000
Reporting threshold	£55,000

11. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

12. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 50% of overall materiality, which was set reflecting the prior year errors, particularly relating to non-current assets.

13. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

14. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the body's accounting practices.

15. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Accounting for non-current assets</p> <p>In 2021/22, we identified a number of material errors in the accounting model used to determine the value of non-current assets and associated depreciation charges, which were corrected as a result of our audit.</p> <p>We also identified that some assets had useful lives allocated which did not reflect their expected lifespan, an estimation which can have a significant effect on amounts charged to the income and expenditure statement.</p> <p>In response to our prior year recommendation, procedures for accounting for non-current assets were reviewed and a new IT system for revaluation was developed.</p> <p>This new system was not completed in time to be used in the production of the 2022/23 draft accounts, with the same manual method as used in prior years continuing. We found a small number of errors in the model, relating to 'nil' net book value assets, depreciation charges and asset values, however these were not material, either individually or in aggregate.</p>	<p>Management have corrected the misstatements in the revised annual report and accounts. As a result, the value of property, plant and equipment increased by £0.027 million and the value of intangible assets decreased by £0.046 million. The accounts have been adjusted accordingly.</p> <p>It is expected that the new system for revaluation will be introduced in 2023/24, see Action Plan.</p> <p>Recommendation 1 (Refer Appendix 1, action plan)</p>
<p>2. Consideration of going concern</p> <p>The annual report and accounts have been prepared on a 'going concern' basis. The Cabinet Secretary confirmed on 9 March 2022 that there will be a new qualifications body, a new national agency for Scottish education and an independent inspectorate body. These will replace both SQA and Education Scotland. As a result of the planned reforms, we considered applicable guidance and the Financial Reporting Manual (FRoM), to ensure that the use of the going concern assumption remained appropriate.</p>	<p>For information only.</p> <p>We have concluded that the use of the going concern basis of accounting remains appropriate for the 2022/23 annual report and accounts.</p> <p>The functions of SQA will continue to be delivered until the reform is complete. At that time, the functions will transfer and continue to be delivered by an alternative public sector body.</p> <p>Appropriate disclosure on this matter has been made in the 2022/23 annual report and accounts.</p>
<p>3. Pension asset reduction</p> <p>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.</p>	<p>The annual report and accounts presented for audit disclosed a pension asset of £67.241 million. This was reduced to £0.446 million, with a corresponding adjustment to the</p>

Issue	Resolution
<p>In common with other local government pension scheme employers, SQA commissions a firm of actuaries to a valuation of its pension liability. The actuary reported that, as at 31 March 2023, the SQA had a funding <i>surplus</i> of £67.241 million.</p> <p>The surplus arose as a result of a significant increase to the net discount rate (discount rate net of CPI inflation) compared to the previous year, leading to a large gain on the statement of financial position.</p> <p>Accounting standards impose a limit on the maximum amount of surplus which can be recognised on an employer's balance sheet. Given that SQA is to continue to participate in the LGPS, it would be expected that this surplus will lead to lower future contributions rather than a refund of surplus. When this minimum funding obligation is considered, the funding surplus was reduced to £0.446 million.</p>	<p>pension reserve, for the final version in line with the requirements of accounting standards.</p>

Source: Audit Scotland

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

16. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that</p>	<ul style="list-style-type: none"> • 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. • Test journals at the year-end and post-closing 	<p>We completed audit testing of journal entries, accounting estimates and accruals. Our audit testing of income and expenditure evaluated whether there were any significant transactions outside the course of normal business.</p> <p>Conclusion: We did not highlight any instances of</p>

Audit risk	Assurance procedure	Results and conclusions
otherwise appear to be operating effectively.	<p>entries and focus on significant risk areas.</p> <ul style="list-style-type: none"> • Evaluate significant transactions outside the normal course of business. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantive testing of income and expenditure transactions around the year- • Focussed testing of accounting accruals and prepayments. 	fraud, or management override of controls.
<p>2. Valuation of non-current assets</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. SQA have undertaken a full review exercise of its non-current assets during 2022/23.</p>	<ul style="list-style-type: none"> • Complete an assessment over the estimation techniques used by management in calculating the useful life of SQA's assets. • Review the valuation methodology used for non-current assets. 	<p>Audit procedures in response to this risk were carried out, including testing of useful lives of assets and a review of the valuation methodology used.</p> <p>Conclusion: We continued to identify some issues in this area however these are not material. Refer Exhibit 2.</p>

Source: Audit Scotland

17. In addition, we identified other areas of audit focus in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **New accounting treatment of leases:** SQA require to comply with the new accounting requirements for IFRS 16 – Leases, which are applicable for the first time this financial year. 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. In 2022/23, SQA has recognised two right of use assets – Optima House in Glasgow and Lowden in Dalkeith – which has increased SQA's non-current assets by £26.455 million. We have reviewed

management's assessment and are satisfied the values are not materially misstated.

- **Pension surplus:** The pension asset/liability is an area of audit focus due to the material value and significant assumptions used within the complex calculation of this liability. As noted in Exhibit 2, we identified that a significant pensions asset was recognised, which has now been reduced in line with accounting standards.
- **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. The entry charges accrual was tested as part of our year-end audit work, with no issues identified.

18. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts. This is normal audit practice and none of the presentational changes have any impact on SQA's outturn for the year.

Submission of the annual report and accounts was delayed

19. The unaudited annual report and accounts were received on 2 June 2023 which was later than the date agreed within audit timetable (22 May 2023). This was due to SQA's ongoing work related to the valuation of non-current assets and the receipt of information from the actuary. SQA staff provided a good standard of support throughout the audit.

Good progress was made on prior year recommendations

20. The authority has made reasonable progress in implementing the audit recommendations identified by the prior year audit team. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management and sustainability

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusions

SQA reported an overall underspend of £0.314 million against Scottish Government funding of £43.539 million in 2022/23, achieving in-year savings of £8.532 million

The draft budget for 2023/24 has increased to £113.2 million, reflecting planned expenditure associated with education reform and increased staff costs

There are plans to improve financial processes within the authority, but progress in producing a medium-term financial plan has been slow due to significant uncertainties around education reform

SQA achieved an overall underspend of £0.314 million against funding provided by the Scottish Government

21. The main financial objective for 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. The Board of Management approved SQA's 2022/23 budget on 23 March 2022. The budget was set with an assumption of "business as usual", with any provision to cover transition to a new qualifications body being dependent on receiving further funding.

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

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

23. The amount of grant-in-aid allocated by the Scottish Government is termed the Departmental Expenditure Limit (DEL), and this covers most current expenditure such as staff salaries and operating costs. The SQA also receives an annual capital DEL to fund investment in assets. Resource DEL is further split into cash and non-cash (ringfenced) elements.

24. The level of resource funding provided by the Scottish Government was £43.539 million, with the remaining income from qualifications and other

operating income. This assumed a full resumption of a 'business as usual' exam diet for 2022/23. SQA reported an actual "drawdown" of £43.225 million, an underspend of £0.314 million against its resource DEL. Total expenditure during the year was £106.698 million.

25. Included within resource DEL was £1.47 million awarded by the Scottish Government to allow SQA to make a pay award in line with government pay policy, and £0.461 million in relation to education reform. There was a drawdown of £2.039 million against a capital DEL allocation of £2million, an overspend of £0.039 million.

Exhibit 5

Performance against fiscal resource in 2022/23

Performance	Final DEL allocation £m	Outturn £m	Over/(under) spend £m
Resource DEL	43.539	43.225	(0.314)
Capital DEL	2.0	2.039	0.039
Ringfenced DEL (depreciation & amortisation)	4.438	4.318	0.120
Non-cash DEL (AME and HMT)	11.787	(20.058)	(31.845)

Source: SQA annual report and accounts 2022/23

SQA's reported in-year savings of £8.532 million

26. The initial spending plans included an overcommitment of £5.6 million in revenue spending, and £0.3 million in capital. While we would normally expect a public organisation to set a balanced budget (ie the level of income matches that of expenditure) SQA's 2022/23 budget incorporated identified savings, staff vacancies and experience of historical spending trends throughout the year to anticipate a balanced financial position by the year end. In 2022/23, SQA reported savings of £8.532 million, exceeding a target of £6.7 million which was built into the initial budget.

The board receives regular updates on financial performance

27. The finance function provides adequate, regular information on the financial position to the Board of Management, and to the Performance Committee.

28. Performance against budget and projected outturn was reported to members during the year, allowing action to be taken on any unplanned variances. This included a year-end forecast and explanations for variances against the budget, plus a separate analysis of the cash position.

The authority has agreed an initial budget for 2023/24 with total revenue expenditure of £113.2 million, an increase of 6 per cent on the previous year's outturn

29. In March 2023, the authority approved its draft budget for financial year 2023/24, setting out total revenue expenditure of £113.2 million, an increase of £6.502 million (6%) on the 2022/23 outturn. A total of £66.7 million was anticipated to be received from Scottish Government funding, including capital funding of £3.8 million.

30. While SQA generates a significant portion of its income from fees and charges (largely entry fee charges), it relies on the Scottish Government providing deficit funding. For 2023/24, core funding from the Scottish Government is £21.631 million, although this is subject to revision later in the year. The Scottish Government has also provided capital funding of £2.5 million.

31. As in previous years, the Scottish Government has not allocated the full amount of resource budget required by SQA at the start of the financial year. Further tranches of funding are expected during the year as part of the Autumn and Spring budget revisions but these have not yet been agreed. The budget has been based, as with 2022/23, on a 'business as usual' basis, with any costs related to the government's education reform agenda to be offset by an assumed grant income equivalent of £3.568 million.

32. SQA's budget also assumes a 5 per cent pay award increase, with projected core staff costs expected to increase by £7.9m. The increase in salary costs is also attributed to an increased number of posts required for the communications and policy, analysis and standards directorates, as well as projects including education reform and Higher National Next Gen. The authority has set an efficiency savings target of £0.750 million to be achieved across the business, with individual directorates responsible for identifying and delivering these savings.

SQA has appropriate high-level financial controls in place

33. From our high-level review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and, we did not identify any internal control weaknesses which could affect SQA's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Internal audit provided a reasonable level of assurance with improvements required in some areas

34. Internal Audit provides the Audit Committee, Board of Management and Accountable Officer with independent assurance on SQA's risk management, internal control and corporate governance processes. During 22/23, Grant Thornton were appointed to carry out this function.

35. Public Sector Internal Audit Standards require the "chief audit executive" to provide an annual internal audit opinion and report that can be used to inform the annual governance statement.

36. The opinion of internal audit, reported to the June 2023 meeting of the Audit Committee, provided 'reasonable assurance with some improvement required' on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The improvements required had have been identified to address "moderate weaknesses" in cyber security and contract management activities and controls.

37. Internal audit also concluded that adequate progress had been made during the year in reviewing and following up outstanding internal audit recommendations.

38. In addition, the SQA has an in-house audit programme which carries out ISO audits, led by the Internal Audit Manager. This function continues to face challenges arising from the lack of availability of trained ISO auditors, which resulted in the postponement of four planned ISO audits in 2022/23. SQA now has five ISO auditors in place and three more are due to complete training.

The authority has in place appropriate arrangements for the prevention and detection of fraud and other irregularities

39. In the public sector there are specific fraud risks, including those relating to tax receipts, grants and other claims made by individuals and organisations. The Accountable Officer is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. The Accountable Officer is also responsible for ensuring its affairs are managed in accordance with proper standards of conduct.

40. The Accountable Officer is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. The Accountable Officer is also responsible for ensuring its affairs are managed in accordance with proper standards of conduct. The 2022/23 annual fraud report informed audit committee members that there were no ongoing or new instances of suspected financial irregularity during the year.

41. We have reviewed the arrangements in place to maintain proper standards of conduct and prevent and detect fraud and irregularity. These include:

- A Fraud Response Group attended by senior members of SQA staff which convenes if and when a fraud referral is made
- an Addressing Financial Irregularity Policy which includes guidance on reporting concerns, the completion of fraud risk assessments and steps to follow when responding to a fraud

42. SQA has also participated in the National Fraud Initiative (NFI). The NFI is a counter-fraud exercise across the UK public sector which aims to identify, prevent and detect fraud by bringing together data from local government, health boards and other public sector bodies. The 2022/23 exercise is under way and progress is expected to be reported to the audit committee in 2023. The authority also carries out a self-appraisal of its participation in the initiative, which is reported to members.

SQA has committed to improving its financial processes but progress on a medium-term financial plan has been delayed due to significant uncertainties around education reform

43. Ongoing uncertainty as a result of education reform makes meaningful financial planning difficult, and SQA effectively operates planning on an annual basis. The impact of the Covid-19 pandemic on the ability to plan the exams diet during the past few years has further constrained SQA's ability to form longer-term financial plans. Plans to create a medium-term financial strategy have been in development for some time, and progress has been delayed as a result of these significant uncertainties.

44. SQA has established a programme of strategic best value and financial improvement, which has been in place for a number of years and is now consolidated in a finance strategy.

45. The finance strategy has identified a number of projects to improve financial processes, time recording, corporate reporting and aspects of financial governance. Progress was made on implementing a cost allocation module in 2022/23 which should allow SQA to better understand cost drivers, profitability and inform financial planning. An update on its workstreams was regularly provided to the Performance Committee throughout 2022/23. Significant developments within this strategy include:

- The establishment of the Finance Development Group (FDG) which is responsible for driving improvements in the finance function's performance.
- Use of software to simplify accounting for non-current assets. This has been progressed but was not available in time for the first draft of the 2022/23 unaudited annual accounts.
- A commitment to workforce planning, with closer working between finance and HR to align the establishment to the operating model.

46. The financial strategy also includes a commitment to developing a medium-term financial plan, with a model covering income and expenditure projections over the next three years. Medium and long-term financial planning is important for any public sector organisation. Given that SQA is to be replaced in the near future, the scope, aims and objectives in a three-year plan should be carefully clarified. Such a financial model may be of value to a new organisation following the proposed transition of functions.

3. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Legislation to replace the SQA has been delayed. The authority continues to support the government's plans for reform while it carries out its core functions.

Effective governance and decision-making arrangements are in place.

SQA is supporting the government's plans for education reform while it continues to carry out its main functions

47. The Scottish Government intends to replace SQA with a new qualifications body, as part of wider education reforms, with transition to a new body initially intended to be complete during 2024. Following the publication of the Hayward review in June 2023, the Cabinet Secretary for Education and Skills announced that legislation to replace SQA would not be introduced until a later date following further consideration.

48. The new organisation will assume SQA's current functions, including responsibility for the design and delivery of all qualifications, and accreditation and regulation. As part of this reform, three new national education bodies will be created: a qualifications body, a national agency for Scottish education, and an independent inspectorate body. These will replace the SQA and Education Scotland.

49. SQA's Corporate Plan for 2020-23 sets out the strategic direction for the authority. Following the Scottish Government's announcement to replace SQA with a new qualifications body, the plan was extended for a year. SQA's corporate strategy contains a clear vision supported by effective prioritised corporate and operational planning.

The authority's business plan 2023/24 includes assisting transition as a key priority

50. The corporate plan is supported by a business plan, which is updated annually. The business plan 2023/24 included a new priority for the authority to deliver against agreed commissions in support of the Scottish Government's education reform programme.

51. A strategic board and three delivery boards have been established to oversee the reform work. Of these, SQA has provided expertise and knowledge to aid transition through the Qualifications Body Delivery Board. SQA has maintained ongoing engagement with the Scottish Government throughout the reform process, while also carrying out its core activities. It has committed to work in partnership with the Scottish Government through the first phase of the transition period to develop operating models for the new organisations and undertake the planning required to support transition.

52. In March 2023, internal audit undertook a review to evaluate the adequacy of internal controls in place around SQA's education reform work. It provided a 'reasonable' level of assurance, the highest level available, with one low-rated finding and a suggested improvement relating to delivery dates of third parties. A further internal audit report on the transitional arrangements is expected to be completed by March 2024.

Effective governance and decision-making arrangements were in place during 2022/23

53. Our review of the governance arrangements of an organisation includes consideration of:

- Board and committee structure and conduct.
- Overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery, and corruption.
- Openness of board and committees.
- Reporting of performance and whether this is fair, balanced, and understandable.

54. SQA has appropriate governance arrangements in place. It operates with a board of management which is responsible for advising on strategic direction and was supported by a number of committees, including an Audit Committee.

SQA is working towards national climate change targets

55. The Scottish Parliament has set a legally binding target for Scotland 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.

56. SQA has worked towards the target of net-zero by 2045, and has a high-level environmental strategy in place to achieve this.

57. Regular internal performance monitoring against emission targets is vital in ensuring the audited body is making sufficient progress. A sustainability report, which includes a review of progress made during the past year, key achievements, a commentary on data and looking ahead to the following year, is considered by the Board each year. In addition, SQA has an Environmental Working Group (EWG) which meets quarterly. The group reviews:

- emissions data — trends and changes
- legislative changes
- upcoming local/national/global campaigns and initiatives
- volunteering opportunities

58. For carbon emissions, SQA has set a baseline figure on which to compare carbon emissions, based on levels in 2013/14. This was 1,643 tonnes of CO₂ equivalent (tCO₂e). In the 2021/22 sustainability report, this target was reported as being met or exceeded. SQA has not put in place interim corporate emission reduction targets that outline how much emissions will reduce over time. This will be the pathway to the date of achieving net zero, help to track progress and ensure that achieving the final net zero target remains a priority.

59. The annual report and accounts includes a summary of key achievements in environmental performance, including progress on reducing carbon emissions, initiatives to reduce travel, plus data and narrative on waste and recycling measures.

60. The Auditor General is developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

There are measures in place to tackle the threat of cyber attack, but improvements are required to strengthen security

61. 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 considered SQA's arrangements for managing and mitigating cyber security risks.

62. In November 2022, internal audit reported their review of the cyber security arrangements at SQA. The report was able to provide a partial level of assurance with two high and four medium rated findings identified.

63. Internal audit's high priority findings related to backups of data and outdated systems/applications. SQA does not have the ability to create immutable (ie fixed and unchangeable) backups or have the facility to store offline backups. The report also observed that the authority has unsupported and end of life systems in use, highlighting that unsupported systems and applications can have severe consequences as they lack further security updates. This is a risk we first reported in our 2021/22 annual audit report. Following these recommendations, management has put actions in place and this features on the corporate risk register.

64. Business Systems IT controls are audited each year as part of confirming ISO compliance, and all non-conformances and recommendations are recorded by the SQA compliance team and managed as part of the risk framework. Incident Response Plans are in place and cyber attack simulation exercises are

undertaken. We understand that penetration testing takes place by a third-party organisation, and that new staff receive training on their role in mitigating the cyber threat.

65. There are many cyber security standards used to assess the level of compliance and accreditation across different aspects of the public sector in Scotland. SQA has partial certification to ISO 27001, and certification with cyber essentials has now expired. SQA should ensure it continues to achieve independent accreditation in compliance with the Public Sector Cyber Resilience Framework.

Recommendation 2

There is scope to strengthen SQA's cyber security arrangements. The authority should ensure it has plans in place to achieve independent accreditation in compliance with the Public Sector Cyber Resilience Framework.

4. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

Board members are provided with regular updates on performance and progress against the authority's strategic outcomes

The performance report in the annual accounts provides a comprehensive picture of SQA's activities, but could be improved by providing concise key messages

SQA has an action plan to ensure it secures best value

66. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

67. The wide-reaching reforms to education in Scotland has constrained SQA's ability to make longer-term financial plans. The authority is progressing a programme of strategic best value and financial improvement which includes projects to improve financial processes, cost allocation, corporate reporting and aspects of financial governance. A progress update on its workstreams was regularly provided to the Performance Committee throughout 2022/23.

68. SQA has a best value action plan which sets out a clear framework of specific steps to ensure achievement of best value. The organisation should further improve this self-assessment by aligning these actions to the key themes as set out in the Scottish public finance manual (SPFM), which are:

- Vision and Leadership
- Governance and Accountability
- Use of resources
- Partnership and collaborative working
- Working with Communities
- Sustainability
- Fairness and equality

Recommendation 3

The best value action plan should be aligned to demonstrate achievement against the seven key themes set out in the Scottish public finance manual

Regular updates on performance and progress against strategic outcomes are scrutinised by board members

69. SQA's performance committee considers a quarterly performance review, which is aligned to the organisation's performance framework and corporate plan. This allows the board to determine progress on its strategic outcomes. The review provides an overview of trends per quarter, an assessment of outcomes and deliverables rated red, amber and green, and contains a narrative description of any significant matters.

70. The outcomes in the framework which SQA has been working towards in 2022/23 are that they:

- provide a credible qualifications system
- are flexible in meeting customer needs
- have a sustainable business operating model that is appropriately resourced in order to deliver our remit now and in the future
- are a thriving organisation, with quality jobs and a fair work environment for all our people
- are trusted, respected and valued by our customers, stakeholders and partners

71. The most recent report, from May 2023, showed of the five key outcomes, three were flagged as green and two as amber. Of the 16 agreed deliverables, nine were green, with the remaining amber.

72. The impact of the reform consultation and subsequent announcement has created uncertainty for staff throughout the organisation. The annual People Survey 2022 produced an engagement score of 73%, an increase of 4 percentage points from the previous year. SQA should continue to obtain clarification and agreements from the Scottish Government and other key stakeholders, including its employer pension funds, to mitigate the effects of uncertainty on staff morale, retention and business planning.

The performance report in the annual accounts provides a comprehensive picture of SQA's activities, but could be improved by providing concise key messages

73. In addition to the opinion on the performance report covered in Part 1 of this Annual Audit Report, we also consider the qualitative aspects of the authority's performance report. The performance report should provide information on a body, its main objectives and the principal risks faced by the SQA. Additionally, it should provide a fair, balanced and understandable analysis of the authority's

performance as well as helping stakeholders understand the financial statements.

74. Financial Reporting Council (FRC) guidance suggests the report should include information on future prospects, be concise and be free of 'clutter', and should not concentrate solely on a single timeframe.

75. We suggested in our annual audit report last year that the performance report should avoid using excessive detail that the main messages are lost. This would improve the readability of the report and give a more accessible picture of performance. There are also opportunities to develop the presentation of the report, including the use of infographics or case studies.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Accounting for non-current assets</p> <p>In prior years we reported material errors in disclosures for non-current assets, which were largely attributable to a manual calculation process. Procedures for accounting for non-current assets were reviewed in 2022/23 and accuracy was significantly improved, however a new system was not ready before production of the draft annual accounts.</p> <p>Risk: SQA's non-current asset disclosures are misstated.</p>	<p>Management should continue to develop a robust system to provide the required accounting disclosures for non-current assets in the annual accounts.</p> <p>Exhibit 2</p>	<p>A new system is currently in the final stages of implementation. This was discussed with the Audit Scotland team, and it was agreed a review would be carried out during the interim audit of 2023/24.</p> <p>Alan Dickson December 2023</p>
<p>2. Cyber security</p> <p>In November 2022, internal audit reported their review of the cyber security arrangements at SQA. The report was able to provide a partial level of assurance with two high and four medium rated findings identified.</p>	<p>There is scope to strengthen SQA's cyber security arrangements. The authority should ensure it has plans in place to achieve independent accreditation in compliance with the Public Sector Cyber Resilience Framework.</p> <p>Paragraph 62</p>	<p>SQA will undertake two key actions to increase our resilience to cyber threats. This will include:</p> <ul style="list-style-type: none"> – The implementation of an immutable backup solution, which is an essential component of cybersecurity compliance, to protect SQA's data; – An external assessment, implementation plan and delivery to allow

Issue/risk	Recommendation	Agreed management action/timing
		<p>SQA to gain Cyber Essentials accreditation.</p> <p>Martin Campbell</p> <p>31 March 2024</p>
<p>3. Best value themes</p> <p>SQA's best value action plan could be improved by linking to the Scottish Government's specific BV themes .</p> <p>Risk: SQA is unable to demonstrate compliance with the duty of best value in line with the characteristics set out in the Scottish Public Finance Manual.</p>	<p>The best value action plan should be aligned to demonstrate achievement against the seven key themes set out in the Scottish public finance manual</p>	<p>We have a best value action plan in place. There is an updated version of the self-assessment which we will now complete and then report progress against this at the Performance Committee.</p> <p>Alan Dickson</p> <p>31 March 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>PY1 Accounting for non current assets</p> <p>Our audit work identified that the model used to calculate non-current asset accounting adjustments contained errors. The current model used is complex and there is scope for improvement. In addition, it was identified that the useful life of some assets did not accurately reflect their expected length of use. Assets should be depreciated over their expected useful life. Where the useful life of an asset differs from a previous estimate, these changes should be appropriately accounted for.</p> <p>Risk: The valuation of non-current assets on the balance sheet does not accurately</p>	<p>Management should review procedures for accounting for non-current assets. This could include utilisation of SQA's finance system to calculate required adjustments and improve efficiency. The useful life of all assets should be reviewed annually to assess whether a change in estimate is required.</p>	<p>Ongoing</p> <p>This has been superseded by recommendation 1 above.</p> <p>Procedures for accounting for non-current assets were reviewed in 2022/23, however a new system was unable to be brought into effect before the completion of the draft annual accounts.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>reflect assets' expected useful life.</p>		
<p>PY2 Identification of payments</p> <p>As a result of errors in accounting for prepayments, expenditure in the unaudited accounts was overstated by £1.463 million.</p> <p>Risk: Expenditure in the accounts is not attributed to the correct financial year, resulting in a material misstatement.</p>	<p>Management should review its year-end finance procedures to improve identification and processing of prepayments.</p>	<p>Closed</p> <p>Our audit testing in 2022/23 identified an error relating to an invoice which was not disclosed as a prepayment. This error was below performance materiality, so has not been reported separately.</p> <p>As a result, we expanded our testing and no further errors were identified.</p>
<p>PY3 2022/23 budget monitoring</p> <p>The SQA has included a £5.9 million overcommitment in its opening 2022/23 budget. 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.</p> <p>Risk: SQA's year-end outturn exceeds its level of income and funding, resulting in a failure to deliver on its main financial objective.</p>	<p>SQA should closely monitor its forecast outturn during the year and maintain close dialogue with the Scottish Government to closely align budget requirements. Should efficiencies be required to reduce a projected overspend, these should be identified at an early stage.</p>	<p>Closed</p> <p>SQA has achieved a balanced financial position.</p>
<p>PY4 Recording of capital expenditure</p> <p>It is important for the purposes of SQA's budget monitoring arrangements, and for ensuring expenditure is properly accounted for, that capital expenditure is separately identified and recorded. We identified instances where assets which met the definition of capital expenditure had either not been properly recorded or had been incorrectly</p>	<p>Management should evaluate and improve their procedures for the identification and recording of capital expenditure.</p>	<p>Closed</p> <p>This has been superseded by recommendation 1 above.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>accounted for as revenue expenditure.</p> <p>Risk: Failure to properly record capital expenditure results in inaccurate budget monitoring and financial reporting.</p>		
<p>PY5 Disposal of non-current assets</p> <p>During the year, SQA completed an asset verification exercise which identified a total of 95 assets, all with a net book value of zero, which were on the asset register but were either no longer in use or previously disposed of. There was no authorisation or supporting documentation for each of these disposals.</p> <p>Risk: Without proper authorisation or documentation, SQA assets could be misappropriated or disclosed incorrectly.</p> <p>(Carried forward from 20/21)</p>	<p>We recommend that SQA implements a policy and process for the disposal of assets, to include retention of evidence of authorisation, method of disposal and accounting for any proceeds.</p>	<p>Closed</p> <p>The authority's asset verification exercise has been extended to include all assets. We did not identify any material issues as part of our year end testing.</p>
<p>PY6 Impairment review</p> <p>No impairment review of assets being brought into commission in 2019/20 was undertaken.</p> <p>(Carried forward from 2019/20).</p>	<p>Management should undertake an impairment review on all assets on an annual basis</p>	<p>Closed</p> <p>An asset verification exercise was undertaken in 2021/22, however this did not fully consider the potential indicators of impairment (e.g damage, obsolescence).</p> <p>A similar exercise has been undertaken in 2022/23, with questions related to impairment included in the review.</p>

Scottish Qualifications Authority

2022/23 Annual Audit Report

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