

Scottish Qualifications Authority

2019/20 Annual Audit Report



 AUDIT SCOTLAND

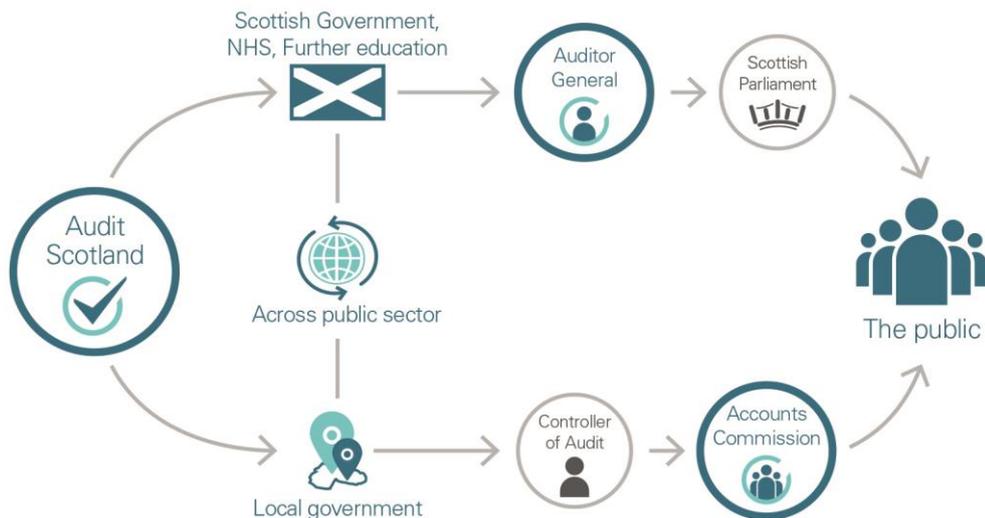
Prepared for the Scottish Qualifications Authority and the Auditor General for Scotland

August 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

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



About us

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

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

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Key messages

Audit of Annual Report and Accounts 2019/20

- 1** The financial statements of the Scottish Qualifications Authority give a true and fair view of the state of the affairs of the organisation as at 31 March 2020 and of the net expenditure for the year then ended. An unqualified Independent Auditor's Report has been issued for the 2019/20 Annual Report and Accounts.
- 2** 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 financial statements and properly prepared in accordance with guidance.

Financial sustainability

- 4** The Scottish Qualifications Authority achieved financial balance in 2019/20.
- 5** The SQA has a medium-term financial plan based on the assumed level of funding and estimated costs against each of the strategic goals.

Governance arrangements

- 6** The SQAs governance arrangements continue to support effective oversight of the organisation's activities and finances. Governance and operational arrangements have been appropriately adjusted in the light of the Covid-19 disruption.
- 7** Management identified a range of risks which had the potential to affect the delivery of certification to pupils along with mitigating actions.
- 8** Generally, internal controls are operating satisfactorily and provided a sound basis for the preparation of the financial statements.

Introduction

1. The scope of our audit was set out in our Annual Audit Plan presented to the March 2020 meeting of the Audit Committee.
2. This report sets out the findings from:
 - the audit of the Annual Report and Accounts
 - consideration of SQA's financial sustainability and governance arrangements.
3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, the SQA has had to respond to the Covid-19 pandemic. This impacted on the final month of the financial year and will continue to have significant impact into financial year 2020/21. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements.

Responsibilities and reporting

4. The Chief Executive of the SQA, as Accountable Officer, is responsible for, inter alia:
 - preparing financial statements which give a true and fair view in accordance with the HM Treasury Financial Reporting Manual (FRoM) and the Scottish Public Finance Manual (SPFM).
 - ensuring the regularity of transactions by putting in place appropriate systems of internal control.
 - maintaining proper accounting records and appropriate governance arrangements.
5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and Audit Scotland's Code of Audit Practice. We undertake our audit in accordance with International Standards on Auditing, and the auditing profession's ethical guidance.
6. At the conclusion of our audit, we provide an Independent Auditor's Report for inclusion in the Annual Report and Accounts. The Independent Auditor's Report sets out our opinions on:
 - whether the financial statements give a true and fair view of the state of the affairs of the SQA and of the net expenditure for the year.
 - whether the Annual Report and Accounts have been properly prepared in accordance with the FRoM.
 - whether the Annual Report and Accounts have been prepared in accordance with relevant legislation.
 - the regularity of the expenditure and income.
 - other matters as directed by the Auditor General.
7. Audit Scotland's 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 annual audit work can focus on disclosures in the governance statement and the financial sustainability of the

body. In our 2019/20 Annual Audit Plan we conveyed our intention to apply the small body provisions to the 2019/20 audit of the SQA.

8. Best Value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for citizens. The duty of Best Value is a formal duty on the SQA's Accountable Officer. As we have applied the Code of Audit Practice small body provisions to the audit of the SQA our wider scope responsibilities do not fully apply. Our Best Value work is limited to our audit work on financial sustainability and governance arrangements. In addition, for 2019/20 we reviewed the organisation's response to its public sector equality and diversity duty and its website accessibility. Our findings on the latter reviews were included in our interim management report, submitted to the June meeting of the Audit Committee.

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

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

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

12. In addition to our primary responsibility of reporting on the Annual Report and Accounts we seek to add value to the SQA by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we aim to help the organisation promote improved standards of governance, better management and decision making, and more effective use of resources.

Auditor Independence

13. We confirm that we comply with the Financial Reporting Council's Ethical Standards. We are not aware of any relationships that could compromise our objectivity and independence. We also confirm that we have not undertaken any non-audit related services and that the previously agreed audit fee of £47,850, is unchanged.

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

Acknowledgement

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

Part 1

Audit of Annual Report and Accounts 2019/20



Main judgements

The financial statements of the Scottish Qualifications Authority give a true and fair view of the state of the affairs of the organisation as at 31 March 2020 and of the net expenditure for the year then ended. An unqualified Independent Auditor's Report has been issued for the 2019/20 Annual Report and Accounts.

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 financial statements and properly prepared in accordance with guidance.

Audit opinions on the Annual Report and Accounts

16. The Annual Report and Accounts for the year ended 31 March 2020 were approved for issue by the Accountable Officer following the meeting of the Board of Management on 26 August 2020.

17. We reported in the Independent Auditor's Report that:

- the financial statements give a true and fair view and were properly prepared.
- the 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 were all consistent with the financial statements and properly prepared in accordance with relevant legislation and directions made by Scottish Ministers.

18. There are no matters upon which we are required by the Auditor General to report by exception.

Submission of Annual Report and Accounts for audit

19. The unaudited Annual Report and Accounts was received on 14 May 2020. Both SQA and Audit Scotland staff operated remotely but were able to complete the audit within agreed timescales. SQA staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Performance report

20. HM Treasury Financial Reporting Manual (FReM) requires a performance report to be included in a public body's annual report and accounts. The purpose of the performance report is to provide information on the body, its main objectives and strategies and the principal risks which it faces. The FReM specifies that it

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

should provide “a fair, balanced and understandable” analysis of a body’s performance to meet the needs of Parliamentarians and other stakeholders.

21. We concluded that the SQA’s 2019/20 Performance Report is consistent with our knowledge and experience of the organisation and presents a reasonable picture of the agency’s performance.

Governance statement

22. We reviewed the assurances which were provided to the Chief Executive as Accountable Officer by the Executive Management Team regarding the adequacy and effectiveness of the system of internal control. The statement also summarises internal audit findings and key reports issued in the year.

23. We concluded that the information in the SQA’s 2019/20 governance statement is consistent with the financial statements and complies with guidance issued by the Scottish Ministers.

Remuneration and staff report

24. The FReM requires inclusion of a remuneration and staff report in an annual report and accounts. The SQA’s 2019/20 remuneration and staff report is consistent with the financial statements and has been prepared in accordance with guidance.

Risk of material misstatement

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

Materiality

26. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law). In forming our opinion on the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

27. Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit and was based on the gross expenditure reported in the 2018/19 audited annual accounts.

28. On receipt of the 2019/20 unaudited financial statements we recalculated materiality levels based on actual gross expenditure for the year. We concluded that there was no significant impact on the audit approach of the recalculated materiality level. Our final materiality levels are summarised at [exhibit 1](#).

Exhibit 1

Materiality level

Materiality level	Amount
Planning materiality – 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.	£0.916 million
Performance materiality – 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 calculated performance materiality at 60% of planning materiality.	£0.550 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at 3% of planning materiality.	£0.027 million

Source: Annual Audit Plan 2019/20

Significant findings from the audit

29. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to “those charged with governance”. Significant findings are summarised at [exhibit 2](#).

30. The qualitative aspects of the SQA’s accounting practices, accounting policies, accounting estimates and financial statements disclosures are satisfactory and appropriate.

Exhibit 2

Significant findings from the audit

Issue	Resolution
<p>1. Asset impairment</p> <p>The implementation of the organisation’s new management information system was completed in 2019/20. Employee costs of £1.030 million were included in the commissioning of the new system. No impairment review of the asset has yet been undertaken. While the FReM suggests that the cost of an intangible assets may be used as a proxy for the value in existing use an impairment review should be carried out in future years to ensure that the carrying value of the asset continues to reflect value in existing use.</p>	<p> Recommendation 1 (appendix 1, action plan)</p>
<p>2. Segmental Reporting</p> <p>International Financial Reporting Standard 8 – “Operating segments” requires entities to report segmental financial information based on a number of criteria including geographical location. We have previously commented (2016/17 Annual Audit Report) on the limited segmental reporting disclosed in the SQA’s financial statements. This has continued into the 2019/20 SQA financial statements.</p>	<p> Recommendation 2 (appendix 1, action plan)</p>

3. Non-current asset disposals

In our Annual Audit Report 2016/17 we reported that there were no formal control processes in place for asset disposals.

Our testing this year, again found that there was no supporting documentation or evidence for the disposal of non-current assets. In the absence of a formal policy and process, unauthorised and fraudulent asset disposals could occur.



Recommendation 3 ([appendix 1](#), action plan)

4. Pension liability

Member bodies of Strathclyde Pension Fund were advised that following a government announcement on a key pension case, the McCloud case, there was a potential material impact on the liability previously provided for in the 2019/20 financial statements. We have summarised the issue in paragraphs 52 to 55 below.

Strathclyde Pension Fund actuaries provided an estimate of the reduced liability in respect of the issue. The SQA's net pension liability reduced by £1.383 million from £14.171 million (unaudited annual accounts) to £12.788 million.

Source: Audit Scotland

Misstatements

31. We identified misstatements with a gross value of £0.141 million in the unaudited financial statements. We concluded that the misstatements arose from issues that were not systemic and therefore no additional audit work was necessary.

32. Management have adjusted for the misstatements. These adjustments have:

- reduced expenditure for the year by £0.023 million with corresponding increases in the Statement of Financial Position (balance sheet) and Statement of Changes in Taxpayers' Equity
- a reduction of £0.118 million in net cash outflows in the Statement of Cash Flows.

Other findings

33. In addition to the issues set out above, and in accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management. In paragraphs below we highlight other matters noted during our audit:

- Departments should perform a physical verification of assets at least once a year and notify finance staff of any changes required. This has been carried out in previous years but was not undertaken in 2019/20.
- Where assets are no longer in use they should be formally scrapped or sold. Assets continuing in use should be revalued and depreciated over the remaining useful economic life. We found a number of assets in the asset register (primarily related to IT equipment) which were still in use and had been fully depreciated.



Recommendation 4

Management should ensure that a physical verification of assets is undertaken at least once a year. Where fully depreciated assets are still in use they should be revalued and depreciated over their remaining useful economic life.

Follow-up of prior year recommendations

34. We followed up on actions agreed in our 2018/19 Annual Audit Report, to assess what progress on implementation had been made. Details of the follow up action are included at [appendix 1](#).

Whole of government accounts

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

Part 2

Financial sustainability



Main judgements

The Scottish Qualifications Authority achieved financial balance in 2019/20.

The SQA has a medium-term financial plan based on the assumed level of funding and estimated costs against each of the strategic goals.

Financial performance in 2019/20

- 36.** 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.
- 37.** 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. The finance function provides regular, timely and up-to-date information on the financial position to the Board and its committees.
- 38.** The SQA’s budget sets out the level of grant in aid (funding) required from the Scottish Government. The amount of grant in aid allocated by the Scottish Government is termed the Departmental Expenditure Limit (DEL). The SQA receives an annual allocation of “resource” DEL to fund current expenditure, and “capital” DEL to fund investment in assets. Resource DEL is further split into cash and non-cash (ringfenced) elements.
- 39.** The SQA has reported a revenue outturn of £35.455 which is a net underspend of £0.040 million against its Resource DEL allocation of £39.495 million.
- 40.** The SQA drew down its capital allocation of £3.800 million, but only incurred capital expenditure £3.580 million in year. This spend was mainly on the implementation of new IT software and hardware as part of the change and modernisation programme. The remaining draw down of £0.220 million will be utilised in 2020/21.
- 41.** Depreciation, amortisation and impairment are accounting concepts that reflect the cost of the use of non-current (eg buildings, equipment etc) assets within an organisation’s financial statements. The Scottish Government provides “ringfenced” non-cash budget allocations to meet these costs. Requests for this funding are made through the monthly monitoring returns. Outturn against DEL in 2019/20 is set out at [exhibit 4](#).

Financial sustainability looks to the medium and longer term to consider whether the SQA is planning effectively to continue to deliver its services.

Exhibit 4

Outturn against Departmental Expenditure Limit (DEL) in 2019/20

Performance	Initial DEL £m	Final DEL £m	Drawn down £m	Over/(under) spend £m
Resource DEL	11.017	35.495	35.455	(0.040)
Capital DEL	nil	3.800	3.800	0.000
Ring-fenced DEL	nil	3.059	3.102	0.043
Total DEL	11.017	42.354	42.357	0.003

Source: Audited Annual Report and Accounts and Budget Allocation and Monitoring letter 2019/20.

Short term financial planning

42. The SQA generates income from fees and charges but relies on the Scottish Government providing deficit funding. A significant factor in the SQA's operating net expenditure deficit is the funding model for levying charges for national examination entries. It is the policy of the Scottish Government to keep charges frozen at 2012/13 levels and provide deficit funding to meet the shortfall in the SQA costs.

43. In 2019/20, entry fees and other income generated £50.592 million accounting for 56% of total income. Funding from the Scottish Government (£39.357 million) accounted for the balance of income.

44. The Board of Management approved SQA's 2020/21 draft budget in March 2020. The budget sets out the level of funding required from the Scottish Government at £48.800 million, however, the Scottish Government does not allocate the full amount of grant in aid needed by the SQA at the start of the financial year. The initial budget allocation monitoring letter provided for an initial DEL allocation of £20.600 million. Further tranches of funding will be allocated during the year in accordance with the Budget Allocation and Monitoring letter from Scottish Government dated 28 April 2020.

Medium to long term financial planning

45. One of the challenges for the SQA is the short-term financial planning cycle of the Scottish Government and the constraints of the public sector funding environment. In order to meet the financial challenges, the SQA needs to identify and secure year on year efficiency savings.

46. Each year the SQA produces a rolling three-year Corporate Plan which sets out the organisation's strategic goals, outcomes and performance measures. Strategic goals are mapped against the Scottish Government's eleven National Outcomes. A Medium-term Financial Plan is also prepared based on the assumed level of funding and estimated costs against each of the strategic goals.

47. The SQA is also focusing on embedding a culture of best value across the organisation, while maintaining outputs and quality of service. Processes and procedures are in place to identify both time-releasing and cash-releasing savings, although the latter are becoming more challenging to identify, examples include

- the procurement function reported net savings of £1.400 million (including the savings achieved by using Scottish Government frameworks), as a result of competitive bidding activities, cost avoidance and efficiencies.

- a voluntary early release of staff scheme expected to generate recurrent resource savings of £1.358 million.
- improvement in IT infrastructure through the change and modernisation programme is expected to enhance the efficiency and resilience of SQA's processes.

48. The SQA has adequate financial planning arrangements in place but financial planning remains constrained by the Scottish Government's planning cycle.

Pension liability

49. The SQA has a long-term liability to secure the pensions of its staff. International Accounting Standard 19 – Employee Benefits, requires all organisations to disclose information on pension liabilities in the financial statements. This section is included for information to non-executive directors as we consider that the large movement requires explanation and comment.

50. The SQA is an admitted member of Strathclyde Pension Fund, one of the largest in the UK with assets of some £23 billion. Valuation of pension fund assets and liabilities is assessed by an independent firm of actuaries (Hymans Robertson LLP). Pension liabilities are calculated annually for each individual member body, by the actuary, for inclusion in the financial statements. Annual valuations are dependent on a number of external variables, including projected rates of return on assets, projected rates of price and pay inflation, interest rates and mortality estimates.

51. The Strathclyde Pension Fund actuary provided an estimate of SQA's liability as at 31 March 2020. The liability advised by the actuary (£14.171 million) is a significant reduction over that included in 2018/19 (£27.944 million).

52. In June of 2019 the Supreme Court handed down a judgement on a key pension case, the McCloud case. Essentially, the transitional arrangements of the scheme involved were judged to be discriminatory. The effect of this judgement was to increase the liability of public sector defined benefit schemes. Following the judgement, the Strathclyde Pension Fund actuary recalculated the SQA's share of the liability increasing it by £2.423 million from £25.521 million to £27.944 million.

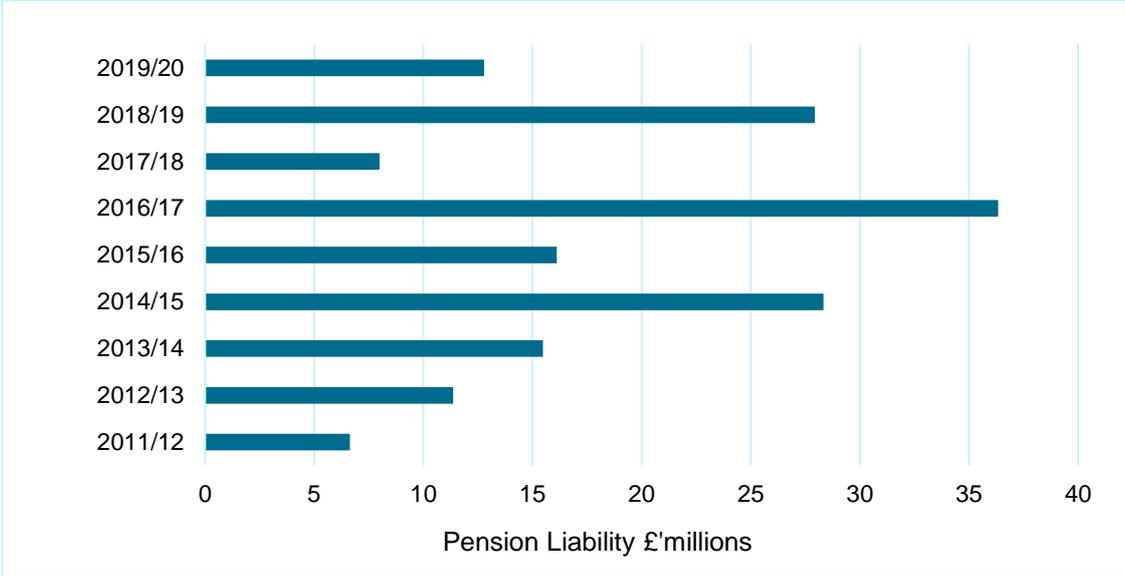
53. The SQA was advised by Strathclyde Pension Fund, on 14 August 2020, that following a government announcement on the McCloud remedy consultation, there was a potentially material impact on the calculated McCloud liability previously provided for the 2019/20 financial statements. The actuary's advice was that "in broadly simple terms, the estimated impact for McCloud may now be less than half of the previously estimated figure".

54. As auditors we sought to determine whether, given the advice from the actuary, the impact on the financial statements would breach our materiality tolerance. To do so we looked at the increase attributable to the McCloud case, as advised by the actuary, for 2018/19. We compared half of the difference (50% of £2.423 million = £1.212 million) to our materiality level (£0.916 million). On this basis we concluded that the difference was likely to be material.

55. We requested that the SQA obtained a revised set of figures for inclusion in the 2019/20 financial statements. The actuary provided revised figures on 20 August 2020 and these were incorporated into the financial statements. The effect on the Statement of Financial Position was to reduce the defined pension liability by £1.383 million from £14.171 million to £12.788 million.

56. Over the past decade there has been considerable volatility in the valuation of pension liabilities across the public sector. For the SQA, the movement over the past nine years is set out at [exhibit 5](#). Small changes in actuarial assumptions can have a significant impact on the calculation of closing liabilities.

Exhibit 5
SQA net pension liability 2011/12 - 2019/20



Source: SQA audited Annual Report and Accounts 2011/12 – 2019/20

Part 3

Governance arrangements



Main judgements

The SQAs governance arrangements continue to support effective oversight of the organisation's activities and finances. Governance and operational arrangements have been appropriately adjusted in the light of the Covid-19 disruption

Management identified a range of risks which had the potential to affect the delivery of certification to pupils along with mitigating actions.

We concluded that, generally, internal controls were operating satisfactorily and provided a sound basis for the preparation of the financial statements.

Governance Arrangements

57. The SQA has appropriate governance arrangements in place. It operates with a board of management which is responsible for advising on strategic direction. It met eight times during the year and was supported by a number of committees, including an Audit Committee.

58. The Audit Committee's role is to support the Board of Management by overseeing audit, risk and governance arrangements. We attend all meetings of the Audit Committee. We have noted from our attendance that members demonstrate a clear understanding of their responsibilities and of the respective roles of management, internal and external audit. We have also observed committee members are engaged and provide a good level of scrutiny and challenge to officers over finance and performance.

Covid-19 governance and operational arrangements

59. The SQA has made appropriate adjustments to its governance arrangements as a result of the Covid-19 disruption. At the start of the lockdown all SQA employees had the necessary equipment to allow them to work remotely. SQA also established the Incident Management Team, responsible for managing the Covid-19 response and board and committee meetings have taken place virtually

60. In May 2020 the Chief Executive gave evidence at the Scottish Parliament Education and Skills Committee on the arrangements being put in place for those pupils who should have sat national examinations during 2020.

61. As Scotland's principal agency for the delivery of the annual diet of public examinations for Scottish school pupils the cancellation of the 2020 diet presented unprecedented and fundamental challenges. The Scottish Government commissioned SQA to devise an alternative certification model to maintain standards and this was developed in consultation with stakeholders. The alternative certification model was based on the estimates of teachers, but grades were moderated up or down using a range of criteria based on historic data held by the SQA. Management identified a range of risks which had the potential to affect the delivery of certification to pupils along with mitigating actions.

62. Alternative certification awards were published, on schedule, on 4 August. The following week saw considerable interest and challenge to the awards issued following moderation of centre estimates by the SQA. The Deputy First Minister

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and other information.

(and Cabinet Secretary for Education and Skills) made a statement to the Scottish Parliament on 11 August and issued a Ministerial Direction to the SQA requiring acceptance of centre estimates where they had been moderated down and to maintain any upward moderated grades and to put in place a revised appeals process. The SQA has complied with that Direction.

63. Prior to the Deputy First Minister's statement of 11 August, Audit Scotland had received correspondence from politicians requesting that the Auditor General undertake an investigation into the methodology for determining awards and the robustness of the appeals process. The Deputy First Minister's statement included the announcement of two independent reviews.

64. The Organisation for Economic Co-operation and Development (OECD) is to provide recommendations on how to transform the Scottish approach to assessment and qualifications, based on best practice globally.

65. A further independent review chaired by Professor Mark Priestley of Stirling University has been commissioned to look into the circumstances of this year's awards, including the approach taken to estimate pupils' grades, the impact the process had on young people and their families and the transparency of the process. An initial report is expected within five weeks.

66. Since the Deputy First Minister's statement of 11 August it has emerged that the Office for Statistics Regulation (OSR) plans to carry out a review of the processes that have been used to develop the statistical models by the qualifications regulators in the UK. The review will consider the extent to which the organisations developing the models complied with the principles set out in the Code of Practice for Statistics and focus on the approach taken to developing the models, including transparency.

67. The Auditor General is considering whether any specific audit work would add value to the OSR, OECD and Priestley reviews, whether it would be proportionate and an effective use of Audit Scotland resources and whether it is within his remit as Auditor General.

Openness and transparency

68. There is an increasing focus on how public money is used and what is achieved. Transparency means that the public have access to understandable, relevant and timely information about how the organisation is taking decisions and how it is using resources such as money, people and assets,

69. There is evidence from several sources which indicate a commitment to openness and transparency:

- The Annual Report and Accounts are available on the website. The SQA also publishes a separate Annual Review.
- The website also provides the public with access to a range of corporate information including the Corporate Plan, Board and Executive Management Team membership, Organisation Structure and guidance on freedom of information requests.
- The register of interests for board members is up to date and publicly available on the website.

70. Our review did note that only the minutes of Board meetings are published and that there is some delay in posting these on the website. As part of the commitment to openness and transparency SQA should consider whether the minutes of the various committees should also be published on its website.



Recommendation 5

SQA should consider whether the minutes of its various committees should be published on the website and ensure that minutes are published promptly following approval.

Systems of internal control

71. As part of our 2019/20 audit we tested key controls operating over the main accounting systems. Our objective was to gain assurance that systems of processing and recording transactions provide a sound basis for the preparation of the financial statements.

72. We concluded that, generally, internal controls were operating satisfactorily and provided a sound basis for the preparation of the financial statements. However, we did, in our interim management report, identify some areas where improvements could be made.

73. During 2017/18 the SQA's Fraud Response Team was made aware of a potential financial irregularity. Following a police investigation no further action was deemed viable and the matter has now been closed.

Internal audit opinion

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

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

76. Public Sector Internal Audit Standards are mandatory for all central government departments, agencies and executive NDPBs. The 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.

77. The annual internal audit opinion, required by PSIAS and reported to the June meeting of the Audit Committee, concluded that the SQA has a framework of controls in place that provides reasonable assurance regarding; the organisation's governance framework, effective and efficient achievement of objectives, and the management of key risks, The opinion also included a recommendation in relation to the SQA's data lifecycle management processes and procedures.

78. In addition, the SQA has an in-house audit programme, led by the Internal Audit Manager. The in-house auditors conducted four audits relating to ISO 9001 (Quality Management) processes: Management Systems/Service Delivery (Accreditation), Management Systems, Bid Management and Contract Planning (Contract Services area), and one relating to ISO 27001 (Information Security) Asset Management Personal Data in the area of Question Papers.

79. A review of the ISO internal audit procedure and processes was also undertaken by the Internal Audit Manager where audit plan approval and review process improvements were made.

Best Value arrangements

80. *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 principles of Best Value and the requirement to have a systematic approach to self-evaluation and continuous improvement.

81. The Performance Committee's remit is to monitor the achievement of Best Value and to monitor progress against the Corporate Plan's strategic outcomes.

82. An internal consultation and development exercise was recently undertaken to assess if any monitoring and review improvements could be made. As a result of this process, the SQA has developed five strategic outcomes, which will replace the nine Strategic Objectives currently in place.

83. The Performance Committee has also approved the use of the Audit Scotland's Self-assessment Model for Best Value. An action plan is currently being developed to address all aspects of Best Value included in the Self-assessment Model.

National performance audit reports

84. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 3](#) includes a selection of reports, published in 2019/20, which may have relevance to the SQA.

85. Relevant Audit Scotland National Reports are drawn to the attention of the Executive Management Team (EMT) and the Audit Committee. Processes are in place to track and monitor responses to National Reports,

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Impairment review</p> <p>No impairment review of assets being brought into commission in 2019/20 was undertaken.</p> <p>Risk</p> <p>Carrying value of assets does not reflect existing use value to the organisation.</p>	<p>Management should undertake an impairment review on all assets on an annual basis.</p> <p>Paragraph 29</p>	<p>Due to close control of the capital budget impairment of new additions is occurring throughout the asset build process. There have been recent examples of assets that have been reduced in value due to this review. Management will look to document this impairment review more formally prior to assets going live.</p> <p>Responsible officer – Head of Finance</p> <p>Agreed date – 31 December 2020</p>
2	<p>Segmental Reporting</p> <p>Segmental reporting in the financial statements is limited.</p> <p>Risk</p> <p>Disclosure is not compliant with the FReM and does not provide stakeholders with full information on the SQA's operations.</p>	<p>Management should review the position to ensure that appropriate segmental information is available for future years.</p> <p>Paragraph 29</p>	<p>It was anticipated that the new ledger system would allow SQA to perform a more detailed level of analysis in 2019/20. However, work on the cost allocation module is still ongoing under the current financial improvements programme. Once this work is complete additional analysis of costs will be available allowing improvements to our segmental reporting.</p> <p>Responsible officer – Head of Finance</p> <p>Agreed date – 31 March 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Non-current asset disposals</p> <p>There was no supporting documentation to evidence authorisation of disposal of assets.</p> <p>Risk</p> <p>Unauthorised and fraudulent asset disposals could occur.</p>	<p>Management should implement 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>Paragraph 29</p>	<p>Noted. There has been an issue getting supporting evidence this year end, mainly due to the current working arrangements as a result of Covid-19. A monthly meeting has been set up for the Heads of Service who control assets and the Programme Finance Manager. At this meeting there will be standard agenda points, including disposals of assets and specifically completing the documentation relating to this.</p> <p>Responsible officer – Head of Finance</p> <p>Agreed date – 31 December 2020</p>
4	<p>Asset verification and valuation</p> <p>Verification of non-current assets was not undertaken during 2019/20. Fully depreciated assets remain in use.</p> <p>Risk</p> <p>In the absence of physical asset verification, the organisation cannot be assured that assets continue to be in use or at an appropriate carrying value.</p>	<p>Management should ensure that a physical verification of assets is undertaken at least once a year. Where fully depreciated assets are still in use they should be revalued and depreciated over their remaining useful economic life.</p> <p>Paragraph 33</p>	<p>Asset verification historically occurs in March each year to get as accurate information as possible around assets that need disposed. Due to circumstances this year resulting from Covid-19 we found it difficult to carry out this process and to get the relevant Head of Service to commit the time to complete on top of everything else that was happening in the organisation.</p> <p>This exercise will return to normal next year.</p> <p>Responsible officer – Head of Finance</p> <p>Agreed date – 30 September 2020</p>



No. **Issue/risk**

Recommendation

**Agreed management
action/timing**

Outstanding prior year recommendations

5 **Transparency**

Only the minutes of Board meetings are published and that there is some delay in posting these on the website.

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

SQA should consider whether the minutes of its various committees should be published on the website and ensure that minutes are published promptly following approval.

[Paragraph 70](#)

Board minutes are published either on the day of meetings, or after approval. Management will look to ensure that this is maintained.

Minutes of meetings are approved at the next scheduled meeting, so publication can sometimes be up to 6 weeks after the date of the meeting to which the minutes refer, dependent on the period of time between the meetings. Due to circumstances this year resulting from Covid-19, we had a delay in approval of the February Board minutes.

Management will look into publication of the minutes of its other committees.

Responsible officer –
Executive Manager

Agreed date –
30 September 2020

Appendix 2

Significant audit risks identified during planning

Risks of material misstatement in the financial statements

<p>1 Risk of management override of controls</p> <p>Auditing standards require that audit work is planned to consider the risk of misstatement arising from the management override of controls.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Testing completed as planned.</p> <p>We have not identified any instances of management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>Auditing standards assert that fraud over income should be presumed to be a significant risk in any audit.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Performed cut-off testing of revenue transactions</p>	<p>Our audit procedures did not detect any evidence of fraud over income.</p>
<p>3 Risk of fraud over expenditure</p> <p>Auditing standards assert that fraud over expenditure should be presumed to be a significant risk in any audit.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of transactions focusing on the areas of greatest risk.</p> <p>Detailed testing of journal entries.</p> <p>Review of regularity of expenditure transactions.</p>	<p>Our audit procedures did not detect any evidence of fraud over expenditure.</p>
<p>4 Estimation and judgments</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"> the value of the pension liability is an estimate based on information provided by management and actuarial assumptions. the new qualification income recognition is an accrual based on the service 	<p>Assessed the appropriateness of the actuarial assumptions.</p> <p>Established officers' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end.</p> <p>Focused testing of IAS19 disclosures.</p> <p>Reviewed the appropriateness of accruals.</p>	<p>We assessed the reliability of the actuary and reviewed their work. No issues were noted.</p> <p>Pension disclosures agreed in full to information from the actuary and to financial records.</p> <p>We undertook a review of the disclosed accruals and concluded that the methodology applied by management was reasonable and consistent with prior years.</p>

provided to 31 March in the academic year.

- the value of the employee benefit estimation in relation to holiday pay.

Risk

Valuations of assets /liabilities are materially misstated.

Wider dimension risks

5 Financial sustainability

As in previous years, the initial funding allocation from the Scottish Government fell considerably short of the SQA's funding requirement. The SQA continues to rely on in year allocations of funding.

Risk

Uncertainty over funding allocations reduces the organisation's capacity to meet its financial obligations and achieve a year-end break-even position.

Ongoing engagement with the Scottish Government.

Reviewed financial performance reports.

6 Disaster Recovery Plan

Internal Audit have reported that the SQA does not have a comprehensive and tested disaster recovery plan.

Risks

The SQA experiences significant delays in restoring services in the event of an IT disaster.

Significant disruption to delivery of services.

Negative media publicity and political intervention.

We reviewed the progress of this by our attendance at the Audit Committee.

In the main, these have been completed. It is anticipated that all actions will be complete by the next Audit Committee

7 User Activity Logs

Internal audit has reported that user activity audit logs are not subject to management review.

Risks

Failure to detect and investigate malicious, suspicious or unusual activity.

Sensitive data is compromised.

We reviewed the progress of this by our attendance at the Audit Committee.

The service is now fully live and operational.

Appendix 3

Summary of national performance reports 2019/20



		2019/20 Reports	
		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	Early learning and childcare: follow-up

Scottish Qualifications Authority

2019/20 Annual Audit Report

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