

Scottish Qualifications Authority

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for SQA and the Auditor General for Scotland

November 2024

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Key messages

2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 Key risks arising from the audit of SQA's annual report and accounts in our Annual Audit Plan were presented to the Audit Committee on 4 March 2024. There are no significant matters from that work to draw to the attention of the Board.
- 3 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.
- 4 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

- 5 SQA reported an overall underspend of £0.355 million against Scottish Government funding of £52.713 million in 2023/24.
- 6 The budget for 2024/25 identified a funding gap of £3 million. The authority is seeking further funding from the Scottish Government and is implementing efficiency savings.

Vision, leadership, and governance

- 7 SQA has effective and appropriate arrangements in place to implement its vision, strategy, and priorities.
- 8 SQA has effective and appropriate governance arrangements for delivery of its plans.
- 9 Further progress needs to be made in gaining cyber essentials accreditation to ensure appropriate cyber security arrangements are in place to mitigate risks.

Use of resources to improve outcomes

- 10 Plans to undertake a self-assessment on how the authority achieves Best Value has made limited progress.
- 11 SQA has appropriate arrangements in place to scrutinise performance, but there remains scope to improve the narrative in the annual report and accounts.

Introduction

1. This report summarises the findings from the 2023/24 audit of the Scottish Qualifications Authority (SQA). The scope of the audit was set out in an Annual Audit Plan presented to the meeting of the Audit Committee on 4 March 2024. 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. Our responsibilities as the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021, supplementary guidance and International Standards on Auditing in the UK (ISAs).

5. Weaknesses or risks identified are only those which have come to the attention of the audit team 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 the audit team complies with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity and independence.

8. The 2023/24 audit fee of £69,160 as set out in our 2023/24 Annual Audit Plan was reduced to £68,523 due to a minor rebate correction.

1. Audit of 2023/24 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 2023/24 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

9. The Board approved the annual report and accounts for SQA for the year ended 31 March 2024 on 27 November 2024. 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 Government Financial Reporting Manual
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

Overall materiality was assessed as £2.151 million

10. 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.

11. Our initial assessment of materiality was carried out during the risk assessment 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	£2.151 million
Performance materiality	£1.260 million
Reporting threshold	£105,000

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

13. 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 60% of overall materiality, reflecting a relatively low level of prior period errors.

14. It is our responsibility to request that all misstatements are corrected other than those below the reporting threshold. The final decision on making the correction lies with the Board.

Significant findings and key audit matters

15. Under ISA (UK) 260, we communicate significant findings from the audit to the Board, including our view about the qualitative aspects of the Board's accounting practices.

16. The Code of Audit Practice also requires me to highlight key audit matters which are defined in ISA (UK) 701 as those matters are judged to be of most significance. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

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

Issue	Resolution
<p>1. Pension asset reduction</p> <p>In common with other local government pension scheme employers, SQA commissions a firm of actuaries to complete a valuation of its pension liability. The actuary reported that, as at 31 March 2024, the SQA has a funding surplus of £82.684 million.</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 the surplus.</p> <p>When considering this funding obligation, SQA reduced the funding surplus on the balance sheet to £0.436 million. However, in line with the asset ceiling calculation commissioned from the firm of actuaries, the funding surplus should be reduced to £nil.</p>	<p>The annual report and accounts presented for audit disclosed a pension asset of £0.436 million. This was reduced to £nil, with a corresponding adjustment to the pension reserve, for the final version in line with the requirements of the accounting standards.</p>
<p>2. Leases</p> <p>Operating leases disclosed in note 16 to the accounts include lease obligations relating to the Optima and Lowden buildings.</p> <p>Obligations relating to the Optima lease were found to contain an extra year in their calculations, causing the obligation 'later than five years' to be overstated by £1.676 million for Optima.</p>	<p>The 'later than five years' obligation in note 16 to the annual report and accounts has been reduced by £1.676 million for the Optima lease.</p> <p>Corresponding adjustments have also been made to the Right of Use Asset net book value disclosed in The Statement of Financial Position.</p>
<p>3. Foreign exchange rates</p> <p>IAS 21 requires that any monetary assets and liabilities denominated in foreign currencies are remeasured at the accounts closing date, with any</p>	<p>It has not been possible to calculate an exact figure for the impact of this issue due to the number of invoices involved and the fluctuating exchange rates, however we estimate that the error is</p>

Issue	Resolution
<p>gain or loss arising on the restatement of such balances taken to the Statement of Comprehensive Net Expenditure.</p> <p>Although SQA has an accounting policy in its annual accounts which reflects this requirement, our testing has identified that this remeasurement does not happen in practice, with outstanding foreign currency invoices based on the exchange rate at the date that the invoice was issued.</p>	<p>below the materiality threshold. No adjustments have been made to the 2023/24 annual report and accounts. We recommend that monetary assets denominated in foreign currencies are remeasured at the accounts closing date in the future.</p> <p>Recommendation 1</p>
<p>4. Performance Report</p> <p>The Government Financial Reporting Manual (FReM) requires the annual report and accounts to include a performance report.</p> <p>While the guidance allows flexibility in terms of the level of performance information included, there is an expectation that the commentary gives an overview of the service performance in year and the inclusion of relevant indicators should tell the full story of the organisation, including both positive and negative aspects of performance.</p> <p>The performance report should avoid using excessive detail to ensure the main messages are clear and the report is accessible to readers.</p>	<p>Some improvements have been made to the Performance Report for the final version of the accounts, including the addition of a table setting out performance against deliverables within the performance summary.</p> <p>Further improvements need to be made in future years, so the performance report in the annual accounts presented to audit provides a clear, objective and fair assessment of performance against SQA's objectives over the year.</p> <p>Recommendation 3</p>

Recommendation 1

Monetary assets and liabilities denominated in foreign currencies should be remeasured at the accounts closing date.

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

17. 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 identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified 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 ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</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 entries and focus on significant risk areas. • 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. • Focussed testing of accounting accruals and prepayments. 	<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:</p> <p>We did not highlight any instances of fraud, or management override of controls.</p>
<p>2. Valuation of non-current assets</p> <p>SQA's 2022/23 balance sheet disclosed non-current assets with a total value of £37.5 million. There is a significant degree of estimation and assumption involved in determining the value of these assets, and a new system has been used to provide calculations for the 2023/24 accounts, while retaining a degree of manual input. As the valuation system is new, and there is a significant element of estimation, we consider this</p>	<ul style="list-style-type: none"> • Complete an assessment of the new system and estimation techniques used by management in calculating the useful life of SQA's assets. • Review and assess 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, a review of the valuation methodology used and an assessment of the new system in place.</p> <p>Conclusion:</p> <p>We did not identify any errors in relation to the valuation of non-current assets.</p> <p>We identified there could still be some improvements in the quality of the fixed asset register working papers and the utilisation of the new system. See Action Plan.</p>

Audit risk	Assurance procedure	Results and conclusions
to be an area at higher risk of misstatement.		

18. In addition, we identified an “area of audit focus” in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. This area of specific audit focus was:

- 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 2024 in the academic year. There is a degree of subjectivity and uncertainty in the calculation of this material accrual.

19. We kept this area under review throughout the audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

There were no further identified misstatements within the financial statements

20. Other than the significant findings and key audit matters detailed in [Exhibit 2](#), the audit identified no misstatements above the reporting threshold.

The unaudited annual report and accounts were received in line with the agreed audit timetable

21. The unaudited annual report and accounts were received in line with the agreed audit timetable on 4 September 2024.

Limited progress was made on prior year recommendations

22. SQA has made limited progress in implementing the agreed prior year audit recommendations. 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. Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

SQA reported an overall underspend of £0.355 million against Scottish Government funding of £52.713 million in 2023/24

The budget for 2024/25 identified a funding gap of £3 million. The authority is seeking further funding from the Scottish Government and is implementing efficiency savings

SQA achieved an overall underspend of £0.355 million against its resource budget provided by the Scottish Government

23. The main financial objective for SQA is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

24. 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.

25. 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.

26. The level of resource funding provided by the Scottish Government was £52.713 million, with the remaining income (£49.959 million) from qualifications

and other operating income. SQA reported an actual “drawdown” of £52.358 million for its resource DEL, an underspend of £0.355 million. Total expenditure during the year was £107.541 million.

Exhibit 5 Performance against fiscal resource in 2023/24

Performance	Final DEL allocation £m	Outturn £m	Over/(under) spend £m
Resource DEL	52.713	52.358	(0.355)
Capital DEL	2.500	2.542	0.042
Ringfenced DEL (depreciation & amortisation)	4.390	3.787	(0.603)
Non-cash DEL (AME and HMT)	10.260	(0.434)	(10.694)

Source: SQA annual report and accounts 2023/24

27. In March 2023, the authority approved its draft budget for financial year 2023/24, setting out total revenue expenditure of £113.2 million. A total of £66.7 million was anticipated to be received from Scottish Government funding. The authority 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.

The draft budget for 2024/25 identified a funding gap of £3 million. The authority is seeking further funding from the Scottish Government and is implementing efficiency savings

28. A draft budget 2024/25 was presented to the board in March 2024, with a series of further financial outlook papers presented to subsequent meetings. Total revenue expenditure was projected as £112.3 million, an increase of 4 per cent from 2023/24’s outturn. The capital expenditure budget was set at £3.9 million.

29. SQA generates a significant portion of its income from fees and charges (largely entry fee charges), with the Scottish Government providing deficit funding. For 2024/25, total resource expenditure was budgeted as £112.3 million, with SQA’s operating income forecast as £50.6 million. With funding from the Scottish Government of £58.7 million, this left a funding gap of £3.0 million. Total projected capital expenditure is £3.870m which is in line with the

funding figure confirmed by the Scottish Government. SQA reported that officials were engaged with the Scottish Government sponsor team to deliver a fully funded position.

30. Key pressures are noted as pay awards, increases in appointees' costs and increases in support costs for business systems, with some increases offset by reductions in pension costs. SQA reported that efficiency and cost reduction measures of £4.2 million have been identified, however the net position was that a £3 million gap remained.

31. We note that the 2024/25 final budget was not formally approved by board members and presented as draft for discussion. It is an important feature of financial governance that the annual budget is recorded as being formally approved and agreed by members. We recognise that the budget and funding from the Scottish Government is based on a 'business as usual' model based on continued operation of SQA's functions.

The director of finance post is vacant during a period of significant financial challenge for the organisation

32. SQA's functions are due to be replaced by a new body, Qualifications Scotland, by Autumn 2025, and the authority effectively operates planning on an annual basis. Plans to create a medium-term financial strategy were in development, and progress was delayed due to the future uncertainty of the organisation. The post of director of finance has been vacant since May 2024.

33. The financial strategy also previously included a commitment to developing a medium-term financial plan. In our 2022/23 annual audit report we concluded that such a financial model may be of value to a new organisation following the proposed transition of functions, however we are not aware of medium or longer-term financial plans being considered at board level.

34. The finance function provides regular information on the financial position to the board, and summary information is provided to the Performance Committee. The main reports provide forecasts and variances against budget. The most recent available (August 2024) report on the financial position reports that the funding gap has been reduced to £2.4 million.

35. An efficiency programme has been developed to narrow that gap, showing that £1.6 million of savings have been achieved so far. This has included a range of cost reduction measures including reductions in budgets for marketing, understanding standards and changes to programme revenue costs. SQA has also reported that attempts to secure additional funding from the Scottish Government are ongoing.

36. The immediate financial outlook is challenging as no further government funding has been secured to meet the shortfall. There are opportunities to improve the financial data provided to members of the board, by clearly identifying how the financial gap has been determined, by providing a year-end outturn against budget, more detail on efficiency savings, and specific narrative around the nature of revenue and capital projects which face financial

challenges. SQA must ensure the organisation has sufficient capacity and expertise to ensure proper financial management as the organisation continues to fulfil its duties.

Recommendation 2

SQA should ensure that it has sufficient capacity in its finance team to ensure effective management of the immediate financial challenge. Financial reporting to the board should clearly identify the funding gap and the specific measures taken to achieve spending efficiencies.

SQA has appropriate high-level financial control arrangements in place

37. From a review of the design and implementation of key controls within SQA's systems of internal control (including those relating to IT) relevant to our audit approach and the testing the operating effectiveness of key controls, 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 and result in a material misstatement in the financial statements.

38. We reviewed the controls SQA has in place to gain assurance over the services provided by the Service Organisation – Agilisys – which hosts SQA's General Ledger system. The review of the design and implementation of key controls in this area did not identify any control weaknesses.

Internal audit provided a reasonable level of assurance with improvements required in network security

39. 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 2023/24, Grant Thornton was appointed to carry out this function.

40. The opinion of internal audit, reported to the June 2024 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. Internal audit identified one high risk recommendation relating to their review of network management. This noted that the existing configuration of SQA's remote access solution dependent on single-factor authentication, potentially introducing security vulnerabilities.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

41. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective

systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption. SQA has adequate arrangements in place to prevent and detect fraud or other irregularities.

42. As part of the 2024/25 Internal Audit Plan, Grant Thornton undertook a review to evaluate the adequacy of internal controls in place around whistleblowing arrangements. The audit was able to provide reasonable assurance with one medium finding that there is no communication plan in place to raise awareness of the whistleblowing policy and process.

43. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. SQA participates in this biennial exercise. The 2022/23 exercise was concluded during 2023/24 financial year and the final report was published in August 2024. In August 2024, it was reported that all matches had been investigated, with all matters resolved.

44. Overall, SQA engaged with the NFI exercise, provided matching data for the exercise on time and reported findings to the board. The authority could further improve by providing more detail on the number of matches processed in its reporting to the board, and follow up of matches should be completed early to identify any potential irregularities in good time.

4. 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

SQA has clear plans in place to implement its vision, strategy and priorities.

SQA has effective and appropriate governance arrangements for delivery of its plans.

Further progress needs to be made to gain cyber essentials accreditation to help evidence that appropriate cyber security arrangements are in place to mitigate risks.

Governance arrangements are in place to assist in the transition to the new qualifications body

45. The Education (Scotland) Bill, introduced in June 2024, established a new qualifications body, Qualifications Scotland. Qualifications Scotland will replace the Scottish Qualifications Authority and will assume the responsibilities and functions of SQA. The bill also included provisions to create the office of His Majesty's Chief Inspector of Education in Scotland, replacing the inspection function currently within Education Scotland. SQA has developed a new corporate plan for 2024 onwards with a focus on delivering its existing responsibilities alongside its work to prepare for transition to Qualifications Scotland.

46. A transition board has been established which met for the first time in April 2024. Co-chaired by SQA Chair and the Scottish Government's Director of Education Reform, it includes representatives from SQA's trade unions and a number of external stakeholders. The board is examining the key steps needed to deliver an ordered transition to the new body, the broader education and skills reform agenda, and development of the new body.

Effective governance and decision-making arrangements were in place during 2023/24

47. 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.

48. 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.

Cyber arrangements

49. Cyber security continues to be a significant risk for public bodies, and it is important that they have appropriate cyber security arrangements in place to be able to mitigate these risks. SQA Internal Audit reported its findings in relation to their review of the cyber arrangements in place at SQA in November 2022, where a partial level of assurance was provided, with 2 high rated findings identified relating to backups of data and outdated systems/applications. SQA has made good progress in response to these findings, by implementing an immutable backup solution and bringing the legacy systems risk on to its Business Systems ROI register, with a specific risk relating to the APS system escalated to the corporate risk register. The Security Discovery Project at SQA was also expanded to capture the status of all systems and develop discovery roadmaps to tackle legacy system issues.

50. In 2023/24, SQA Internal Audit undertook a review of the SQA IT strategy to identify the key risks within the strategy and the design of controls to mitigate these risks, results of which were taken to the June 2024 Audit Committee. Internal Audit was able to provide reasonable assurance, with six low rated findings identified. Internal Audit also conducted a review to assess the effectiveness, efficiency and security of the network management process within SQA, the results of which were presented at the November 2023 Audit Committee. This review identified one high level finding relating to the single-factor authentication in place for access controls for their cloud platforms. Progress against this finding has been slow, with the review into multi-factor authentication stalling due to competing priorities and staff leave.

51. In addition to this, we reported in the prior year that there was scope to strengthen SQA's cyber security arrangements. We reported that the authority should ensure it has plans in place to achieve independent accreditation in compliance with the Public Sector Cyber Resilience Framework. In response to

this, SQA agreed to undertake two key actions to increase resilience to cyber security threats

- 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 SQA to gain Cyber Essentials accreditation.

52. SQA has made good progress with the first of these agreed action points, with the offline backups project implemented. However, there has been delays in the delivery of the implementation of the delivery plan to gain cyber essentials accreditation. Further progress needs to be made in this area to ensure appropriate cyber security arrangements are in place to mitigate risks.

5. 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

Plans to undertake a self-assessment on how the authority achieves Best Value has made limited progress

SQA has appropriate arrangements in place to scrutinise performance, but there remains scope to improve the narrative in the annual report and accounts

Plans to undertake a self-assessment on how the authority achieves Best Value has made limited progress

53. [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.

54. As we have noted in Section 2 of this report, the wide-reaching reforms to education in Scotland has constrained SQA's ability to make longer-term financial plans. SQA has established a programme of strategic best value and financial improvement, and progress is reported to the Performance Committee.

55. Over the course of 2024, progress against this programme has been limited. The programme of assessment against best value has also been slow, with SQA reporting challenges of changes in personnel and lack of a dedicated programme manager, with resources being focused on the requirements of the reform programme. Plans to complete a Best Value maturity assessment in order to baseline the organisation has been delayed.

Updates on performance and progress against SQA's strategic outcomes and deliverables are scrutinised by board members

56. 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.

57. The outcomes in the framework which SQA has been working towards in 2023/24 are listed below, along with their 'RAG' rating according to the May 2024 progress report:

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

58. Reasons for amber ratings included concerns due to industrial action, resolving issues with technology suppliers, market recruitment, and ongoing compliance issues with Ofqual. In addition to the outcomes above there are 15 specific deliverables, of which 9 were rated 'green' and six 'amber'.

There remains scope to improve the narrative of the annual report to provide a clear, balanced overview of performance

59. 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.

60. 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.

61. 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. We have concluded again that there remains scope for SQA to improve the annual report presented to audit to provide a clear, objective and fair assessment of performance against its objectives over the year.

Recommendation 3

The performance report in the annual accounts presented to audit should provide a clear, objective and fair assessment of performance against SQA's objectives over the year

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Foreign exchange accounting</p> <p>IAS 21 requires that any monetary assets and liabilities denominated in foreign currencies are remeasured at the accounts closing date, with any gain or loss arising on the restatement of such balances taken to the Statement of Comprehensive Net Expenditure.</p> <p>Although SQA have an accounting policy in their annual accounts which reflects this requirement, our testing has identified that this remeasurement does not happen in practice, with outstanding foreign currency invoices based on the exchange rate at the date that the invoice was issued.</p> <p>Risk – Assets and liabilities denominated in foreign currencies are misstated in the annual accounts.</p>	<p>Monetary assets and liabilities denominated in foreign currencies should be remeasured at the accounts closing date.</p> <p>Exhibit 2</p>	<p>Accepted</p> <p>SQA response: All monetary assets held in currency other than GBP will be revalued at the applicable rate on the 31 March each year. This will be in place for FY24/25.</p> <p>Responsible officer: Head of Financial Systems</p> <p>Agreed date: 31 March 2025</p>
<p>2. Finance team capacity</p> <p>SQA's functions are due to be replaced by a new body, Qualifications Scotland, by</p>	<p>SQA should ensure that it has sufficient capacity in its finance team to ensure effective management of the</p>	<p>Partially accepted</p> <p>SQA response: Recruitment for a new Director of Finance has commenced and we</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Autumn 2025, and so the authority effectively operates planning on an annual basis. Plans to create a medium-term financial strategy had been in development, and progress was delayed due to uncertainty. The post of director of finance has been vacant since May 2024.</p> <p>Risk – There is risk that the SQA operates without appropriate strategic finance direction or leadership.</p>	<p>immediate financial challenge. Financial reporting to the board should clearly identify the funding gap and the specific measures taken to achieve spending efficiencies.</p> <p>32.</p>	<p>hope to make an appointment before the end November 2024. Reporting to the board has been of a high priority and they have been kept clearly aware of the funding gap and measures taken.</p> <p>During the recruitment freeze the workforce capacity within Finance will be closely monitored to ensure continuation of timely and accurate reporting across all areas of SQA.</p> <p>Responsible officer: Director of People</p> <p>Agreed date: 31 March 2025</p>
<p>3. Performance report</p> <p>The Government Financial Reporting Manual (FRoM) requires the annual report and accounts to include a performance report.</p> <p>While the guidance allows flexibility in terms of the level of performance information included, there is an expectation that the commentary gives an overview of the service performance in year and the inclusion of relevant indicators should tell the full story of the organisation, including both positive and negative aspects of performance.</p> <p>The performance report should avoid using excessive detail to ensure the main messages are clear and the report is accessible to readers.</p>	<p>The performance report in the annual accounts presented to audit should provide a clear, objective and fair assessment of performance against SQA's objectives over the year</p> <p>Paragraph 59.</p>	<p>Accepted</p> <p>SQA response: SQA will undertake a robust review of its performance report and ensure it adheres to the requirements of the financial reporting manual, including a clear summary of what has been achieved against strategic objectives, and a review of the performance analysis to ensure evidence provided includes responses against targets set within SQA's corporate plan</p> <p>Responsible officer: Director of Corporate Strategy and Business Development</p> <p>Agreed date: 31 March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
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Risk – There is a risk of a lack of transparency over performance reporting

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
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b/f 1. Accounting for non-current assets

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

Risk: SQA's non-current asset disclosures are misstated.

Recommendation:

Management should continue to develop a robust system to provide the required accounting disclosures for non-current assets in the annual accounts.

Agreed action:

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.

December 2023

Complete

Audit Scotland response:

The new non-current assets system was implemented in 23/24 and no errors have been identified through our testing in this area. However, fixed asset register working papers can be difficult to follow and contain a significant number of manual entries. There is scope for SQA to continue to seek improvement in this area.

b/f 2. Cyber security

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.

Recommendation: 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.

Agreed action: SQA will undertake two key actions to increase our resilience to cyber threats. This will include:

- The implementation of an immutable backup solution, which is an

Work in progress

SQA response: The implementation of an immutable backup solution has been achieved in line with BP1128 Offline Backup.

BP1078 Security Programme Discovery has been working to identify end-of-life and out-of-support systems that were in need of updating to allow us a pathway towards Cyber Essentials accreditation.

In support of this project, we engaged our security partners, NCC (Dec 2023 –

Issue/risk	Recommendation and Agreed Action	Progress
	<p>essential component of cybersecurity compliance, to protect SQA's data;</p> <ul style="list-style-type: none"> An external assessment, implementation plan and delivery to allow SQA to gain Cyber Essentials accreditation. <p>31 March 2024</p>	<p>Oct 2024), to carry out an external assessment to discover, identify and assist us with a roadmap that would help us to achieve Cyber Essentials.</p> <p>A number of activities have been completed, and several investment business proposals have been raised following this initial assessment. However, the NCC external assessment report has demonstrated the solution is more complex than anticipated, and therefore will need more time to complete a robust and comprehensive implementation plan, with dependencies upon SQA's Digital Awarding and Cyber Resilience roadmaps. Significant investment is required.</p> <p>Action Owner: Director of Business Systems</p> <p>Revised date: June 2025</p>
<p>b/f 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>Recommendation:</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>Agreed action:</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>31 March 2024</p>	<p>Work in progress</p> <p>Audit Scotland response:</p> <p>SQA reports it has conducted a first gap analysis and areas for improvement against the best value characteristics and success criteria. Progress against the programme has been limited, with SQA reporting challenges of changes in personnel and lack of a dedicated programme manager, with resources being focused on the requirements of the reform programme. There are plans to complete a Best Value maturity assessment in</p>

Issue/risk	Recommendation and Agreed Action	Progress
		order to baseline the organisation.

Scottish Qualifications Authority

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