

Scottish Qualifications Authority

2021/22 Annual Audit Report



 AUDIT SCOTLAND

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

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Key messages

2021/22 annual report and accounts

- 1 An unqualified independent auditor's report has been issued for the 2021/22 annual report and accounts. This is good outcome for the SQA given the challenging environment within which it operates.
- 2 In all material respects, expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.
- 3 The performance report, governance statement and remuneration and staff report are consistent with the accounts and properly prepared in accordance with guidance.

Financial sustainability

- 4 SQA reported an underspend of £7.134 million against its resource expenditure limit of £25.812 million in 2021/22, utilising 72% of its identified resource funding. The continued impact of Covid 19 was a significant factor.
- 5 SQA's year-end outturn was £79.207 million against an original total resource expenditure budget of £84 million.
- 6 The Scottish Government plans to replace the SQA with a new qualifications body by late 2024, which will limit the extent to which the authority can plan longer term.

Governance and transparency

- 7 Effective governance and decision-making arrangements were in place during 2021/22.
- 8 The announcement to replace the SQA places the authority in a transitional phase while it continues to carry out its existing functions.
- 9 SQA should continue to work towards positive outcomes for its staff and stakeholders during this period of uncertainty.

Introduction

1. This report summarises the findings from our 2021/22 audit of the Scottish Qualifications Authority (SQA).
2. The scope of our audit was set out in our Annual Audit Plan presented to the Audit Committee on 14 March 2022.
3. The main elements of our audit work in 2021/22 were:
 - an audit of the SQA's 2021/22 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - a review of the SQA's key financial systems
 - consideration of the SQA's financial sustainability and governance arrangements.

Adding value through the audit

4. We seek to add value to the SQA by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance arrangements and financial sustainability.

Responsibilities and reporting

5. The Chief Executive of the SQA, as Accountable Officer, 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.
6. The Accountable Officer is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016, and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and

effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position, and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

8. The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. As highlighted in our 2021/22 Annual Audit Plan, we have applied the small body provisions of the Code to the 2021/22 audit.

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

10. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Audit appointment from 2022/23

11. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

12. The procurement process for the new round of audit appointments was completed in May 2022. Audit Scotland will remain SQA's external auditor for the period 2022/23 to 2026/27.

13. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

Auditor Independence

14. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

15. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2021/22 audit fee of £49,950 as set out in our

2021/22 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

16. This report is addressed to both the SQA and the Auditor General for Scotland. Following the SQA's annual reports and accounts being laid at the Scottish Parliament, the report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

17. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2021/22 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

An unqualified independent auditor's report has been issued for the 2021/22 annual report and accounts. This is good outcome for the SQA given the challenging environment within which it operates.

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.

Our audit opinions on the annual report and accounts are unmodified

18. The annual report and accounts for the year ended 31 March 2022 were approved for issue by the Accountable Officer following the meeting of the Board of Management on 14 September 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- in all material respects expenditure and income were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers
- the performance report, governance statement and remuneration and staff report were all consistent with the accounts and properly prepared in accordance with relevant legislation and directions made by Scottish Ministers.

19. We are satisfied that there are no matters upon which we are required by the Auditor General to report by exception.

There were challenges in preparing the annual report and accounts

20. The unaudited annual report and accounts were received on 25 May 2022, which was later than the agreed date of 16 May. Some sections of the annual report were made available earlier in the audit process. The delay was due to the late receipt of pension information from the actuary, complexities in accounting for non-current assets, and staff committed to other activities.

21. The audit team received a good level support from finance staff during the final accounts audit process. The completion of the SQA's annual report and accounts remained well within the statutory deadline of 31 December 2022.

Overall materiality is £0.827 million

22. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£0.827 million
Performance materiality	£0.414 million
Reporting threshold	£0.035 million

Source: Audit Scotland

23. In determining performance materiality, we considered our prior audit knowledge of SQA, the extent of misstatements identified in previous audits and the results of our risk assessment procedures carried out during 2021/22.

Our audit identified a number of significant findings

24. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the SQA's accounting practices. The significant findings are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the action plan in [Appendix 1](#) has been included.

25. We concluded that the qualitative aspect of SQA's accounting practices, accounting policies, accounting estimates and accounting disclosures are satisfactory.

26. In addition to the issues set out below, and in accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management.

Exhibit 2

Significant findings from the audit of the annual report and accounts

Issue	Resolution
<p>1. Accounting for non-current assets</p> <p>In response to our prior year audit recommendation, management completed an extensive review of fully-depreciated assets. This resulted in a number of accounting adjustments to reflect the continuing use of these assets.</p> <p>We identified that the model used to calculate the required accounting adjustments contained a number of errors, including several manual input errors and the omission of some fully depreciated assets which should have been included in the review.</p> <p>In addition, it was identified that the useful lives of some assets, not yet fully depreciated, did not accurately reflect their expected length of use. This included leasehold improvements to Optima where the useful life of these improvements had not been extended to reflect the extension of the lease.</p>	<p>Management have corrected the misstatements in the revised annual report and accounts. As a result, the value of property, plant and equipment has increased by £0.631 million and the value of intangible assets reduced by £0.966 million. In addition, the depreciation charge for the year has reduced by £1.567 million and the revaluation reserve has reduced by £1.991 million. The accounts have been adjusted accordingly.</p> <p>In respect of assets not yet fully depreciated, management agreed to adjust the useful life of all assets of significant value. Management has agreed to fully review the useful life of all assets in 2022/23.</p> <p>We obtained sufficient evidence to conclude that there was not a material misstatement in the assets not subject to a useful life review.</p> <p>Recommendation 1 (Refer Appendix 1, action plan)</p>
<p>2. Year-end prepayments</p> <p>Where a payment is made in advance which relates to a future financial period, a prepayment should be disclosed in the statement of financial position as a debtor. This ensures that the transaction does not feature in the current year income and expenditure statement.</p> <p>During our audit testing, we identified the following:</p> <ul style="list-style-type: none"> A £0.633 million prepayment that should have been recognised for a contractual payment made in March 2022. 	<p>Management has corrected all identified misstatements in the revised financial statements. The adjustments had the effect of reducing 'other expenditure' by £1.463 million and increasing trade and other receivables by the same amount.</p> <p>In response to the issues identified, we adjusted our audit approach to obtain additional assurance over the authority's expenditure and prepayments.</p> <p>We recommend that management reviews the year-end closedown</p>

Issue	Resolution
<p>Expenditure was overstated by the same amount.</p> <ul style="list-style-type: none"> • Errors in the calculation of two prepayments that resulted in a £0.468 million overstatement of expenditure. • An error in omitting a prepayment resulting in a £0.362 million overstatement of expenditure. • There was a misclassification of a prepayment resulting in a movement of £0.154 million between current assets and non-current assets. 	<p>procedures to ensure all prepayments are identified and accurately processed.</p> <p>Recommendation 2</p> <p>(Refer Appendix 1, action plan)</p>

3. Capitalisation of employee costs

IAS 38 (Intangible Assets) permits the capitalisation of employee costs, but only where the employees' activities are directly attributable to the creation of an asset. The unaudited accounts included £0.702 million of employee costs for the creation of internally-generated intangible assets.

We identified that £0.277 million of general overhead costs (central services costs such as finance and HR), had been included in the model for capitalisation. These are not a directly attributable cost and therefore cannot be capitalised under the accounting standard.

During the audit, SQA management revised the model to remove identified errors and provide a more accurate reflection of the value of employee costs.

Management agreed to re-classify overhead costs as a revenue expense. This resulted in an increase in revenue expenditure, and equivalent decrease in capital expenditure, of £0.277 million.

Overall, the revised model increased the value of capitalised employee salary costs to £1.068 million. Management amended the unaudited accounts to increase the value of salary costs capitalised by £0.366 million. While we have reviewed the model and are satisfied this represents a reasonable estimate, management has agreed to carry out a further review of the capitalised salary model in 2022/23.

4. Accrual of Scottish Government income

SQA receive income from the Scottish Government to fund the £1.043 million annual lease costs of the head office at Lowden.

An income accrual (identified as a debtor in the statement of financial position) should be created where income is due, but has not yet been received, at the year-end.

SQA had received the £1.043 million funding for Lowden in full as at 31 March, however an

Management agreed to correct this misstatement in the audited annual report and accounts.

Issue	Resolution
accrual for a proportion of this income, £0.238 million, had been posted in error.	
<p>5. Holiday pay accrual</p> <p>IAS 19 (Employee benefits) requires bodies to recognise a liability for any untaken annual leave at the year end that can be carried forward. The initial draft accounts included an accrual of £2.377 million within trade payables relating to untaken staff leave.</p> <p>The accrual was calculated on the basis that leave is paid to employees at rate of 1/220 of annual salary per day. Payroll confirmed that the rate in which annual leave is paid is 1/261 of annual salary per day.</p>	<p>Management agreed to revise the calculation. This reduced the total accrual by £0.373 million to £2.004 million. In line with accounting standards, no prior year restatement was necessary as this was calculated to be immaterial.</p>
<p>6. Consideration of ‘going concern’</p> <p>The annual report and accounts have been prepared on a ‘going concern’ basis.</p> <p>The Cabinet Secretary confirmed on 9 March 2022 that there will be a new qualifications body, a new national agency for Scottish education and an independent inspectorate body. These will replace both SQA and Education Scotland. The new organisations are expected to be fully operational in 2024.</p> <p>As a result of the planned reforms, we considered applicable guidance and the Financial Reporting Manual (FRoM), to ensure that the use of the going concern assumption remained appropriate.</p>	<p>For information only.</p> <p>We have concluded that the use of the going concern basis of accounting remains appropriate for the 2021/22 annual report and accounts.</p> <p>The functions of SQA will continue to be delivered until the reform is complete. At that time, the functions will transfer and continue to be delivered by an alternative public sector body.</p> <p>Appropriate disclosure on this matter has been made in the 2021/22 annual report and accounts.</p>

Source: Audit Scotland

27. In addition to our findings in [Exhibit 2](#) above, we identified three further less significant issues. These were:

- Historic income accrual:** Our review of trade and other receivables balances identified a historic income accrual of £0.127 million. This has been carried forward for several years and has no impact on the authority’s income in 2021/22, however is reflected as an overstatement of trade and other receivables. This remains unadjusted in the 2021/22 Audited Annual Report and Accounts.
- Recording of capital expenditure:** We identified minor errors in how capital expenditure had been recorded in the authority’s records. Our audit testing identified one asset which was not recorded on SQA’s

asset register and two assets which had not been capitalised despite meeting the definition of capital expenditure. Although these items were immaterial and below our reporting threshold, we recommend SQA reviews its procedures to prevent more significant omissions in future.

Recommendation 4 – see [appendix 1](#) action plan.

- **Actuarial gain:** The figure in the draft statement of comprehensive net expenditure for the actuarial gain (a non-cash amount) on the pension scheme was incorrectly extracted from the actuary’s report. This was increased by £11.787 million, to a total actuarial gain of £34.776 million. Management agreed to correct this in the audited annual report and accounts. This reduced total comprehensive net expenditure for the year by £11.787 million.

Our audit addressed the significant risk of material misstatement identified in our 2021/22 Annual Audit Plan

28. The concept of audit risk is fundamental to our audit approach. As reported in our 2021/22 Annual Audit Plan, we identified one significant risk of material misstatement which could impact on the annual report and accounts. [Exhibit 3](#) sets out the risk identified and summarises the further audit procedures we performed and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management’s ability to override controls that otherwise appear to be operating effectively</p>	<p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end with a focus on areas of significant risk.</p> <p>Evaluated significant transactions outside the normal course of business identified through audit testing of income, expenditure, accruals and cut off transactions.</p> <p>We assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p>	<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. We did not highlight any instances of fraud, or management override of controls.</p> <p>Conclusion: No issues identified.</p>

Audit risk	Assurance procedure	Results and conclusions
	Reviewed accounting estimates for evidence of management bias including assessing any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.	

Other areas of audit focus

29. In our 2021/22 Annual Audit Plan, we identified other risks of material misstatement to the annual report and accounts. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. These areas of specific audit focus were:

- **Pension liability:** The pension liability is an area of audit focus due to the material value and significant assumptions used within the complex calculation of this liability.
- **Non-current assets:** We identified a material error in the valuation of fully-depreciated non-current assets in the prior year audit. There are significant management assumptions in estimating the useful life of SQA's assets, a key determinant of the carrying value of tangible and intangible assets.
- **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 2022 in the academic year. There is a degree of subjectivity and uncertainty in the calculation of this material accrual.

30. We carried out audit procedures in response to these further risk areas, and other than [exhibit 2 – issue 1](#), there are no significant matters which we need to bring to your attention.

Identified monetary misstatements of £7.882 million were adjusted in the accounts, exceeding our performance materiality level

31. Misstatements with a gross monetary value of £7.882 million were identified in the unaudited annual report and accounts. This exceeded our performance materiality level of £0.414 million.

32. We reviewed the nature and causes of these misstatements to consider the need for additional audit testing. As a result of the prepayment and non-current asset errors identified, [exhibit 2 – issues 1 & 2](#), we undertook additional testing to address these two areas of risk.

33. Adjustments made in the audited accounts decreased net expenditure in the Statement of Comprehensive Net Expenditure by £15.290 million (£11.787 million of this was due to a manual input error) and increased net assets in the Statement of Financial Position by £1.250 million.

34. It is our responsibility to request that all misstatements are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

Some progress was made on prior year recommendations

35. SQA has made some progress implementing our prior year audit recommendations, although there are incomplete action points, particularly around accounting for non-current assets. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

SQA reported an underspend of £7.134 million against its resource expenditure limit of £25.812 million in 2021/22, utilising 72% of its identified resource funding. The continued impact of Covid 19 was a significant factor.

SQA's year-end outturn was £79.207 million against an original total resource expenditure budget of £84 million.

The Scottish Government plans to replace the SQA with a new qualifications body by late 2024, which will limit the extent to which the authority can plan longer term.

SQA reported an underspend of £7.134 million against its resource expenditure limit of £25.812 million in 2021/22

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 Board of Management approved SQA's 2021/22 draft budget in March 2021, which anticipated total resource expenditure of £84m.

38. The level of funding budgeted from the Scottish Government was £42.3m, with the remaining income from qualifications and other operating income. This assumed a full resumption of 'business as usual' exam diet for 2022, following the cancellation of the exams diet in 2021.

39. In April 2021, the Scottish Government initially awarded a resource expenditure budget of £14.187 million to SQA, and provided notice that additional grant-in-aid would be allocated later in the year. A final revised fiscal resource budget of £25.812m was awarded, with £2.5 million of

fiscal capital available. The actual year-end outturn, as disclosed in the annual accounts, was £79.207 million.

40. The SQA has reported a ‘drawdown’ of £18.678 million of Scottish Government resource funding against their award of £25.812 million, which represents a significant underspend of £7.134 million utilising 72% of its resource funding. In 2020/21, the underspend was £9.25 million. Management has attributed this underspend to the uncertainty that existed around the examination diet and the relative cost of developing the Alternative Certification and appeals models at the time of submitting the final budget figures for 2021-22. The capital grant in aid funding of £2.5 million was utilised in full.

Exhibit 5

Performance against fiscal resource in 2021/22

Performance	Final DEL allocation £m	Drawdown £m	Over/(under) spend £m
Resource DEL	25.812	18.678	(7.134)
Capital DEL	2.500	2.500	-
Ringfenced DEL (depreciation & amortisation)	3.759	1.248	(2.511)
Non cash DEL (AME and HMT)	5.325	(24.517)	(29.842)

Source: SQA annual report and accounts 2021/22

41. 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.

42. The finance function provides adequate, regular information on the financial position to the Board of Management, and to the Performance Committee. We noted in our interim audit letter to SQA management in March 2022 that there was a gap where a quarter two report was not presented to the Board due to a pressing agenda of other significant business.

The authority has agreed a budget for 2022/23 which includes an initial £5.9 million overcommitment of expenditure

43. While SQA generates a significant portion of its income from fees and charges (largely entry fee charges), it relies on the Scottish Government providing deficit funding. For 2022/23, core funding from the Scottish Government is £19.561 million, although this is subject to revision later in the year. The Scottish Government has also provided capital funding of £4.6 million.

44. As in previous years, the Scottish Government has not allocated the full amount of resource budget required by SQA at the start of the financial year. Further tranches of funding are expected during the year as part of the Autumn and Spring budget revisions.

45. The SQA has a £5.9 million overcommitment in its 2022/23 budget, agreed by the Board of Management, after accounting for further funding expected from the Scottish Government. The funding agreed with the Scottish Government at this point did not include any provision for costs associated with the education reform programme which would be subject to separate funding arrangements. The majority of this overcommitment (£5.6 million) is within revenue expenditure with a £0.3 million overcommitment projected within capital expenditure.

46. Management has reported it is confident a balanced outturn will be delivered and this overcommitment will not result in an overspend at the year-end, as the strategy is designed to counteract historic patterns of late emerging underspends towards the end of the financial year.

47. While SQA remain confident that it will be able to deliver its strategic priorities within its allocated budget, and that efficiencies can be met to deliver a balanced outturn, this will require close monitoring throughout the financial year. Given that the authority has reported significant underspends for the past two years, management should ensure it continues to maintain dialogue with the Scottish Government to closely align budget requirements. Should efficiencies be required to reduce a projected overspend, these should be identified at an early stage. **Recommendation 3** – see [appendix 1](#) action plan.

Financial planning has been limited by the far-reaching education reforms, as well as the impact of the pandemic

48. The impact of the Covid-19 pandemic on the ability to plan the exams diet, in addition to the wide-reaching reforms, has constrained SQA's ability to make longer-term financial plans.

49. SQA is progressing a programme of strategic best value and financial improvement. The programme includes projects to improve financial processes, cost allocation, time recording, corporate reporting and aspects of financial governance. A progress update on its workstreams was regularly provided to the Performance Committee throughout 2021/22.

3. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

Effective governance and decision-making arrangements were in place during 2021/22.

A new public body is expected to replace the SQA by 2024, placing the authority in a transitional phase while it continues to carry out its core functions.

SQA should continue to work towards positive outcomes for its staff during this period of uncertainty.

The Scottish Qualifications Authority is entering a transitional phase

50. Following the Organisation for Economic Development (OECD) review of Curriculum for Excellence, the Cabinet Secretary for Education and Skills announced in June 2021 that the SQA was to be replaced. An independent advisory panel, led by Professor Ken Muir, undertook consultations with stakeholders and his report, [Putting Learners at the Centre: Towards a Future Vision for Scottish Education](#), was published in March 2022.

51. The new qualifications body is expected to be established after delivery of the national exam diet in 2024. In addition, an independent group, led by Professor Louise Hayward, has been established to advise the government on reform of national qualifications and assessment in the 'senior phase', and a forthcoming national discussion on education has been announced by Scottish Ministers.

52. SQA has maintained ongoing engagement with the Scottish Government and other key stakeholders throughout the reform process, while also carrying out its core activities. It has committed to work in partnership with the Scottish Government and Education Scotland through the first phase of the transition period to develop operating models for the new organisations and undertake the planning required to support transition.

53. As part of its 2022/23 work plan, internal audit will be undertaking a review of the impact of the reform, including the process of devolving SQA's

responsibilities to the new public body, the transformation programme and governance structures.

SQA should continue to work towards positive outcomes for staff to mitigate the effects of ongoing uncertainty

54. The impact of the reform consultation and subsequent announcement has created uncertainty for staff throughout the organisation. The government has provided assurances over compulsory redundancies, however trade unions have voiced concerns over job roles and locations, and raised the possibility of industrial action during the appeals process in 2022.

55. This extremely challenging context was reflected in the most recent staff survey, which produced an engagement score of 69%, a deterioration of 11 percentage points since the previous survey. Management reflected on the results and have developed an action plan to support and guide staff through this difficult period, and undertakes regular pulse surveys to gauge the mood. In March 2022, an internal audit review reported positively on SQA's process of engaging with its trade unions.

56. SQA should continue to obtain clarification and agreements from the Scottish Government and other key stakeholders, including its employer pension funds, to mitigate the effects of uncertainty on staff morale, retention and business planning.

Effective governance and decision-making arrangements were in place during 2021/22

57. 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.

58. SQA's independent internal audit function, carried out by Azets, reviewed corporate governance arrangements in place and reported in June 2021. It examined levels of compliance with best practice guidance, including the Scottish Public Finance Manual and Scottish Government guidance. The report also examined the relationship between the board and its committees, and communication lines between them.

59. They concluded that Scottish Qualifications Authority's (SQA's) corporate governance arrangements are reflective of good practice, and are consistent with relevant guidance in aspects falling under the remit of their review. A small number of areas were suggested to improve controls in place.

60. The 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.

The authority has agreed an action plan to improve how it complies with the public sector equality duty

61. Following engagement with the Equality and Human Rights Commission (EHRC) in 2021, it was established that SQA was not routinely assessing the impact of its policies and practices against the three needs of the Public Sector Equality Duty, which requires public authorities to give due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different groups.

62. The SQA signed a Section 23 Agreement with the Equality and Human Rights Commission in September 2021. The agreement committed SQA to complete outstanding Equality Impact Assessments for its current policies and practices and to improve its overall approach to Equality Impact Assessments ('EqIAs') in the future.

63. The authority has agreed an action plan with the EHRC which will be implemented over the next two years. A large-scale review of policies and practices to assess the impact of these on equality groups is underway.

64. Under the action plan, SQA has committed to the development and delivery of an EqIA policy and supporting guidance, a programme of policy and practice updates with full consideration being given to EqIAs, plus targeted training and support for relevant staff.

The performance report provides a comprehensive picture of SQA's activities over the year, but there is scope for improvement

65. In addition to the opinion on the performance report covered in Part 1 of our 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.

66. 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.

67. As suggested in our audit last year, there are opportunities to develop the presentation of the report, including the use of infographics or case studies. In addition, 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. Further guidance can be found

in [Audit Scotland's 2019 report: Good Practice Note on Performance Reports in Central Government](#).

Internal audit provided a reasonable level of assurance over SQA's risk management, control and governance arrangements during 2021/22

68. 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. The internal audit function in 2021/22 was provided by Azets. During the year, Grant Thornton were appointed internal auditors effective from 2022/23.

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

70. The opinion of internal audit, reported to the June 2022 meeting of the Audit Committee, is that the SQA has a framework of governance, risk management and controls that provides reasonable assurance regarding the effective and efficient achievement of objectives. Internal audit have also concluded that management have made reasonable progress during the year in implementing agreed actions from internal audit reports.

71. In addition, the SQA has an in-house audit programme which carries out ISO audits, led by the Internal Audit Manager. This function has faced challenges during the year arising from the lack of availability of trained ISO auditors which resulted in the postponement of six planned ISO audits. A further eight ISO auditors are now in place and these postponed audits have been carried forward into the 2022/23 plan.

SQA has appropriate standards of conduct and arrangements in place for the prevention and detection of fraud and error

72. The Accountable Officer is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. The Accountable Officer is also responsible for ensuring its affairs are managed in accordance with proper standards of conduct.

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

- implementation of an Addressing Financial Irregularity Policy available to all staff via the staff intranet. This includes guidance on reporting concerns, the completion of fraud risk assessments and steps to follow when responding to a fraud
- revision of the Whistleblowing Policy and Procedure, which was developed in consultation with SQA's two recognised trade unions

- approval of a revised Code of Conduct for Members available on the SQA website which adheres to the updated Scottish Government model code.

74. The SQA has also participated in the National Fraud Initiative (NFI). The NFI is a counter-fraud exercise across the UK public sector which aims to identify, prevent and detect fraud by bringing together data from local government, health boards and other public sector bodies. [Exhibit 7](#) summarises the result for the SQA.

Exhibit 7 NFI activity



305

Matches



305

Recommended for
investigation

305

Completed/closed
investigations

- Source: NFI secure website: www.nfi.gov.uk
-

75. SQA have been pro-active in investigating matches and reported the outcomes of NFI activity to the November 2021 meeting of the Audit Committee. The annual fraud report 2021/22 informed audit committee members that there were no ongoing or new instances of suspected financial regularity during the year.

76. We have concluded that appropriate standards of conduct are in place and there are adequate arrangements for the prevention and detection of fraud and error.

Relevant national performance audit reports are considered by the Audit Committee

77. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Relevant reports published by Audit Scotland are reviewed by the SQA's Audit Committee on a regular basis. Reports published in 2021/22 can be found on Audit Scotland's [website](#).

We have obtained audit assurances over the wider dimension risks identified in our 2021/22 Annual Audit Plan

78. [Exhibit 8](#) sets out the audit dimension risks we identified in our 2021/22 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 8

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>1. Replacement of SQA</p> <p>The Cabinet Secretary for Education and Skills announced in June 2021 that the Scottish Qualifications Authority will be replaced.</p> <p>An advisory panel led by Professor Ken Muir is due to report in early 2022 with recommendations on the reform of SQA and Education Scotland.</p> <p>Risk: The timeline of SQA's replacement is unknown. There is a risk that key talent cannot be recruited or retained, that staff morale is impacted, and SQA's business performance is detrimentally affected during any transition period.</p>	<ul style="list-style-type: none"> • Review of the outcomes and recommendations of the Professor Ken Muir review. • Ensure appropriate disclosure is made within the Performance Report in the annual report and accounts. • Assessment of SQA's response to the challenges, including engagement with staff and stakeholders. 	<p>Results & Significant Judgements: Appropriate disclosures have been made in the performance report. In this report, we have assessed SQA's response and engagement with stakeholders. Broad timeline now known with new organisations to be established in 2024.</p> <p>Conclusion: SQA has maintained ongoing engagement with the Scottish Government and other key stakeholders throughout the reform process.</p>
<p>2. Information security</p> <p>To carry out its functions, SQA depends on the use of unsupported legacy systems and applications.</p> <p>This includes use of the Awards Processing System (APS) which is a key financial system used for the recording of appointee expenditure.</p> <p>Risk: The use of unsupported technologies increases cyber security risks and prevents SQA achieving key accreditations, for example cyber essentials.</p>	<p>A discovery exercise to identify all unsupported legacy systems and applications is being undertaken and is expected to conclude in June 2022. We will review outcomes of the discovery exercise and monitor actions to address identified risks.</p>	<p>Results & Significant Judgements:</p> <p>It was reported to the Audit Committee in June 2022 that, due to resourcing issues, work in this area was delayed. A project roadmap is being drafted to prioritise legacy systems and unsupported applications.</p> <p>Conclusion: We will continue to monitor ongoing work ongoing in this area and report on the conclusions.</p>

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Accounting for non-current assets</p> <p>Our audit work identified that the model used to calculate non-current asset accounting adjustments contained errors. The current model used is complex and there is scope for improvement.</p> <p>In addition, it was identified that the useful life of some assets did not accurately reflect their expected length of use. Assets should be depreciated over their expected useful life. Where the useful life of an asset differs from a previous estimate, these changes should be appropriately accounted for.</p> <p>Risk: The valuation of non-current assets on the balance sheet does not accurately reflect assets' expected useful life.</p>	<p>Management should review procedures for accounting for non-current assets. This could include utilisation of SQA's finance system to calculate required adjustments and improve efficiency.</p> <p>The useful life of all assets should be reviewed annually to assess whether a change in estimate is required.</p> <p>Exhibit 2 – Issue 1.Exhibit 2</p>	<p>A full review exercise will be carried out in 2022/23 with detailed procedures to be put in place.</p> <p>Alan Dickson (Head of Finance)</p> <p>March 2023</p>
<p>2. Identification of prepayments</p> <p>As a result of errors in accounting for prepayments, expenditure in the unaudited accounts was overstated by £1.463 million.</p> <p>Risk: Expenditure in the accounts is not attributed to the</p>	<p>Management should review its year-end finance procedures to improve identification and processing of prepayments.</p> <p>Exhibit 2 – Issue 2</p>	<p>Agreed this will be reviewed and any necessary changes made.</p> <p>Alan Dickson (Head of Finance)</p> <p>March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>correct financial year, resulting in a material misstatement.</p>		
<p>3. 2022/23 budget monitoring</p> <p>The SQA has included a £5.9 million overcommitment in its opening 2022/23 budget.</p> <p>The main financial objective for the SQA is to ensure that the financial outturn for the year is within its agreed budget and the grant-in-aid allocated by the Scottish Government.</p> <p>Risk: SQA's year-end outturn exceeds its level of income and funding, resulting in a failure to deliver on its main financial objective.</p>	<p>SQA should closely monitor its forecast outturn during the year and maintain close dialogue with the Scottish Government to closely align budget requirements.</p> <p>Should efficiencies be required to reduce a projected overspend, these should be identified at an early stage.</p> <p>Paragraph 47</p>	<p>Monthly forecasting and continual monitoring is taking place. We expect that expenditure will be similar to prior years. If not, a specific action plan will be put in place.</p> <p>Alan Dickson (Head of Finance)</p> <p>March 2023</p>
<p>4. Recording of capital expenditure</p> <p>It is important for the purposes of SQA's budget monitoring arrangements, and for ensuring expenditure is properly accounted for, that capital expenditure is separately identified and recorded.</p> <p>We identified instances where assets which met the definition of capital expenditure had either not been properly recorded or had been incorrectly accounted for as revenue expenditure.</p> <p>Risk: Failure to properly record capital expenditure results in inaccurate budget monitoring and financial reporting.</p>	<p>Management should evaluate and improve their procedures for the identification and recording of capital expenditure.</p> <p>Paragraph 27</p>	<p>This will be included in a full review of fixed assets and capital expenditure taking place in year 2022/23.</p> <p>Alan Dickson (Head of Finance)</p> <p>March 2023</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	2021/22 update & agreed management action/timing
<p>PY1. Valuation and useful lives of non-current assets</p> <p>Our audit work found a number of non-current assets were recorded in the fixed asset register which had a net book value of nil, yet were still in use.</p> <p>Risk: The entries in the accounts are not reflective of the assets which are owned and used by SQA.</p>	<p>Undertake a review of the fixed asset register and ensure that the accounting treatment is appropriate</p>	<p>Closed</p> <p>This has been superseded by recommendation 1 above.</p> <p>A review of the fixed asset register was undertaken, however improvements are still required in the authority's accounting for non-current assets.</p>
<p>PY2. Disposal of non-current assets</p> <p>During the year, SQA completed an asset verification exercise which identified a total of 95 assets, all with a net book value of zero, which were on the asset register but were either no longer in use or previously disposed of. There was no authorisation or supporting documentation for each of these disposals.</p> <p>Risk: Without proper authorisation or documentation, SQA assets could be misappropriated or disclosed incorrectly.</p>	<p>We recommend that SQA implements a policy and process for the disposal of assets, to include retention of evidence of authorisation, method of disposal and accounting for any proceeds.</p>	<p>In Progress</p> <p>Management completed asset verification for all fully depreciated assets and implemented a revised policy for the disposal of assets.</p> <p>It remains the case that asset disposals are identified only at the year-end. Further work is required to embed a process where asset owners communicate with finance as soon as assets are disposed of.</p> <p>We also suggest that the asset verification exercise is extended to include all assets.</p> <p>Updated management response:</p> <p>Asset verification was carried out on the full asset register in 2021/22. This will also be reviewed under the review of fixed assets in 2022/23.</p> <p>Alan Dickson (Head of Finance) March 2023</p>

Issue/risk	Recommendation	2021/22 update & agreed management action/timing
<p>PY3. Signed approval of business cases</p> <p>We noted in some instances that business cases submitted to the Scottish Government did not receive signed approval, but rather were approved through an email trail.</p> <p>Risk: That significant financial decisions are not appropriately authorised.</p>	<p>SQA should consider reviewing options to implement an electronic signature system for decisions which require formal approval.</p>	<p>Outstanding</p> <p>Updated management response:</p> <p>Maintain current process with transparent approvals evident.</p> <p>Martin Hughes (Head of Business Systems)</p> <p>September 2022</p>
<p>PY4. Segmental Reporting</p> <p>Segmental reporting in the financial statements is limited</p> <p>Risk: 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>Complete</p> <p>We have concluded that the segmental information included in the annual report and accounts generally complies with the requirements of the accounting framework.</p>
<p>PY5. Review of the annual report and accounts</p> <p>The draft performance report section of the annual report is reviewed by the SQA's performance committee, while the draft financial statements section is reviewed by the audit committee. In our view, the draft annual report and accounts should be viewed as a cohesive whole.</p> <p>Risk: The annual report and accounts is not considered as a standalone document.</p>	<p>The draft annual report and accounts should be formally considered by the audit committee as a whole, standalone document prior to approval.</p>	<p>Complete</p> <p>The full draft annual report and accounts was considered by the 13 June 2022 Audit Committee.</p>
<p>PY 6. Impairment Review</p> <p>No impairment review of assets being brought into commission in 2019/20 was</p>	<p>Management should undertake an impairment review on all assets on an annual basis.</p>	<p>Outstanding</p> <p>An asset verification exercise was undertaken in 2021/22, however this did not fully consider the potential</p>

Issue/risk	Recommendation	2021/22 update & agreed management action/timing
undertaken (carry forward from 2019/20).		<p>indicators of impairment (e.g damage, obsolescence).</p> <p>Updated management response: All asset owners were asked to consider a remaining useful life for assets and in some cases new asset lives were recorded. We will include an impairment review within the scope of the review mentioned above to be undertaken in 2022/23.</p> <p>Alan Dickson (Head of Finance) March 2023</p>

Appendix 2. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Scottish Qualifications Authority

2021/22 Annual Audit Report

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