

Scottish Qualifications Authority

Management report 2019/20



 AUDIT SCOTLAND

Prepared for the Scottish Qualifications Authority
April 2020

Audit findings

Introduction

1. This report contains a summary of the key issues identified from the interim audit work carried out at the Scottish Qualifications Authority (SQA) during February 2020.

2. Our responsibilities under Audit Scotland's [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. In doing so, we seek to gain assurance that the SQA:

- has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements;
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption;
- complies with established policies, procedures, laws and regulations.

3. Our interim work included the testing of key controls within financial systems and verification of significant income and expenditure transactions for the year up to January 2020. As the income and expenditure verification testing was performed prior to the financial year end, the need for additional testing will be considered when determining our approach to the audit of the 2019/20 annual report and accounts.

4. As part of our [Code of Audit Practice](#) wider scope responsibilities we reviewed the equalities and diversity arrangements and website accessibility. We will provide comment on the SQA's financial sustainability and governance arrangements in our annual audit report.

Conclusion

5. Our key controls testing identified several areas where improvements could be made, [exhibit 2](#). Based on our work and assurances from management, we do not consider the control weaknesses to present a risk of material misstatement for the 2019/20 financial statements.

Acknowledgment

6. The content of this report has been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our interim audit work is gratefully acknowledged.

Publication

7. All of our outputs are published on Audit Scotland's website: www.audit-scotland.gov.uk.

Systems and verification work summary

8. [Exhibit 1](#) summarises the main financial systems and account areas that were reviewed and tested during our 2019/20 interim work.

Exhibit 1

Systems and account areas tested

System	Review of key controls	Verification testing
General ledger	✓	
Payroll	✓	
Trade Payables	✓	✓
Trade Receivables	✓	✓
Appointee Expenditure	✓	

Risks identified

9. [Exhibit 2](#) sets out the risks we identified from our interim audit work.

10. The weaknesses identified represent only those that have come to our attention during our normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the nature and extent of the internal control system appropriate to the organisation.

Voluntary early release (VER) scheme

11. The overall cost of the VER scheme has exceeded the costs originally approved by the Scottish Government for year one of the scheme. At the time of writing the SQA had not specifically advised the Scottish Government of the increased cost but had reflected actual costs and appropriate explanations in monitoring returns to the Scottish Government. The agreed savings generated by SQA and agreed grant-in-aid funding will cover the additional expenditure.

12. The original Business Case anticipated 50 staff leaving at a cost of £1.900 million. Having reviewed the applications, management decided that 62 employees would be permitted to leave under the scheme. This increased the cost to £2.783 million, an additional £0.883 million. This, however, was considered beneficial to the SQA as it would generate increased recurrent future savings.

13. Management have advised that the increased cost of the VER scheme was caused by a number of additional costs not included in the original estimates including allowing more people to leave, staff leaving later than anticipated. a requirement to make payments in lieu of notice and grade mix higher than expected in terms of average salary. Also included was pensions, outstanding holiday pay and national insurance liabilities.

14. A "strain on the fund" cost arises when a pension fund member draws benefits earlier than normal retirement date. In the majority of cases, this 'strain' was included in the employees' VER entitlement. This payment is made directly to Strathclyde Pension Fund when the employee leaves. For others, as part of the savings exercise, the employer must bear the estimated extra liability on the

pension fund. Included within the total cost, are 22 'strain on the fund' payments totalling some £0.775 million.

15. The Scottish Public Finance Manual (SPFM) limits termination payments to £95,000 per individual. Termination payments include strain on the fund costs. Where it is proposed that the cap is not applied Scottish Government advice and approval is necessary.

16. We found two payments greater than the cap. It should be noted that these payments are for strain on the fund costs only and do not include any severance payments. We confirmed that there were no other payments made to the individuals concerned.

17. The SPFM guidance specifies which costs (mandatory or discretionary) should be included within the cap. However, the guidance does not distinguish clearly between mandatory and discretionary strain on the fund costs. Management advised that the strain on the fund costs were, in their opinion at the time, mandatory and therefore excluded from the calculation of the cap.

18. The SPFM also specifies a maximum payback period of 24 months (ie the time taken to recover the compensation costs against normal salary costs). We have not been able to establish that a calculation was made, demonstrating that this condition was met.

19. Due to the current situation regarding the outbreak of Covid-19 we have not been able to follow through on the matters raised regarding VER scheme payments but will do so as part of our annual report and accounts audit and comment as necessary in our annual audit report.

Exhibit 2

Key findings

Issue/risk	Management response	Responsible officer and target date
<p>1. Voluntary early release (VER) scheme</p> <p>Additional costs have been incurred in implementing the VER scheme. The increased expenditure has not yet been approved by the Scottish Government.</p> <p>Some of the individual termination costs exceed the maximum specified payback period.</p> <p>Risk: SQA is not compliant with the SPFM.</p>	<p>These were not identified as discretionary strain payments at the time the decision was taken on the 2 cases to which this applies. The approach to reporting was taken in good faith. This was an oversight and retrospective approval will be sought from Scottish Government. This has happened in 2 out of 62 cases,</p>	<p>Head of Finance 30 June 2020</p>
<p>2. Appointee payroll</p> <p>It is the SQA intention to include the appointee payroll on Business World. The work required to migrate the appointee payroll has identified issues with pension assessment. These issues are taking additional time and resources to resolve but until further progress is made on identifying the root cause, SQA are unable to quantify the net impact on resources and costs.</p>	<p>Since the original audit took place, we have made significant progress around the Pension Auto Enrolment for Appointees. The software supplier has developed a solution which does not require any system upgrades, just changes in configuration. These changes have been successful in unit tested which will allow progress to be made towards full Parallel Payroll Running in order to validate the</p>	<p>Head of Finance Systems 31 March 2021</p>

Issue/risk	Management response	Responsible officer and target date
<p>The project is requesting a contingency budget to cover any costs which may arise from the need to re-plan the testing and data migration of the Appointee payroll.</p> <p>Risk: If the migration from SAP does not occur in this financial year there will be additional costs incurred:</p> <ul style="list-style-type: none"> • renewal of SAP licence, maintenance and support; • benefits of Business World implementation not being realised; • payroll staff resources and time, and IT resources. 	<p>configuration in combination with the rest of the system.</p> <p>Due to the current operating circumstances the project to move Appointee payments to Business World may well be delayed due to the organisational change freeze and the need of resources to be transferred to diet related issues.</p> <p>The additional cost of keeping SAP as an operational system for longer than originally intended is approximately £150k, however this only captures the external costs and does not include staff time.</p> <p>The main benefits of moving to Business World for Appointees are that they would have access to their payslips electronically. For staff who work with Appointees the level of queries may continue.</p>	
<p>3, Payroll exception reports</p> <p>There are currently no system generated exception reports produced for the payroll system. A manual spreadsheet has been created that can compare this and previous months employee pay.</p> <p>Risk: There is a risk that financial discrepancies are not identified and resolved timeously.</p>	<p>Although we don't have the same exception reports that we had in SAP we are producing a manual percentage difference report where we check anything with a variance of plus or minus 15%.</p>	<p>Head of Finance Systems Complete</p>
<p>4, Payroll fraud</p> <p>A payroll fraud (approximate loss of £2,000) occurred when an employee's bank details were amended following receipt of a bogus email. Payroll standing data was amended without reference to procedural guidance.</p> <p>Risk:</p> <p>Changes to employee standing data are made without appropriate checks being made.</p> <p>Staff training, including that for temporary staff, requires to be updated.</p>	<p>There was one incident where a member of the payroll team did not follow process, the process has been reviewed, tightened and training given to the payroll team.</p>	<p>Head of Finance Systems Complete</p>
<p>5. Approval of journal entries</p> <p>The financial ledger is the system for recording all transactions and preparing the financial statements. Journal entries are the means by which the financial ledger is manually</p>	<p>This is a point that has been revisited on numerous occasions over the years. Our journals are split into two types, Financial Journals and Management Journals.</p>	<p>Head of Finance Complete</p>

Issue/risk	Management response	Responsible officer and target date
<p>updated. To prevent error and fraud each journal entry should be prepared and authorised by different members of staff. We found that most journals were prepared and processed by a single officer.</p> <p>Risk: The ability of officers to approve their own journals increases the risk that invalid, erroneous or fraudulent journals could be posted to the financial ledger.</p>	<p>Financial journals are journals that impact on our key ledgers and impact on our financial out turn, these journals always have dual authorisation, mainly using journal workflow.</p> <p>Management journals tend to be posted by the Accounting team and are things like reallocation journals (work order, recharges etc) or monthly reversing journals. These journals are not authorised as they occur mainly due to the volume and impact of these. We do carry out monthly balance sheet reconciliations where any errors in the reversing journal types would be flagged.</p>	
<p>6. Timeliness of reconciliations</p> <p>Review of the key financial reconciliations found that:</p> <p>Supervisory checks were not being carried out within four weeks of the period end.</p> <p>There were some examples of reconciling items not being cleared timeously, specifically in relation to credit cards.</p> <p>The SQA does not have formally specified timescales within which the reconciliations should be prepared and reviewed.</p> <p>Risk: Discrepancies are not identified and resolved timeously.</p>	<p>The monthly reconciliation file is complete and authorised prior to completion of the following month. We have certain reconciliations for example bank accounts, which happen weekly on the first working day and other key control accounts that are complete in quicker timescales.</p> <p>The point raised about reconciling items not being cleared can be due to numerous different reasons for example staff long term absences, ongoing legal issues, staff possibly being overseas on business there may be occasions where items can be carried across reconciling periods.</p> <p>Reconciliations are carried out timeously and all discrepancies are investigated in the month they arise and then followed up in subsequent reconciliations.</p> <p>Staff have been reminded of the importance of investigating reconciliation differences and clearing items in a timely manner.</p>	<p>Head of Finance</p> <p>Complete</p>
<p>7. Retention policy for the Awards Processing System (APS)</p> <p>We were unable to establish whether there was a retention policy for APS.</p> <p>Risk: There is a risk of non-compliance with GDPR and information is being retained longer than necessary.</p>	<p>The lack of a retention policy was identified by management and was initially due to be included as part of Business World (BW) project. Due to the removal of the Appointee contracts from the BW project the retention of APS records will now be reviewed as a standalone project.</p>	<p>Head of Appointee Management</p> <p>31 December 2020</p>
<p>8. Non-SQA funds</p> <p>SQA accounts contain a Christmas fund comprised of voluntary staff wage deductions. It is our view that the</p>	<p>Agreed a separate account will be set up.</p>	<p>Senior Accounting Manager</p> <p>31 December 2020</p>

Issue/risk	Management response	Responsible officer and target date
<p>SQA's systems should not be used for the holding of non-SQA funds.</p> <p>Risk: There is a risk that the distinction between SQA and staff funds become confused.</p>		
<p>9. Systems access controls</p> <p>Outputs from the system to monitor user licenses and activity are not reviewed.</p> <p>Risk: Unauthorised system access.</p>	<p>System access is controlled via the Ivanti process where all starters, leavers and movers are processed and distributed to the appropriate team to add remove or change access. There is currently a possibility, if this form is not completed properly by the Line Manager that users may have additional (or even insufficient) access rights. This possibility will be eliminated when we move to position-based roles within Business World where each "Position" will only have assigned to it the access that is appropriate and when an employee moves to a new position, they will automatically inherit the correct Business World access.</p>	<p>Head of Finance Systems</p> <p>31 March 2021</p>

Source: Audit Scotland

Internal audit

20. Internal audit provides the Board of Management, the Accountable Officer and the Executive Management Team with independent assurance on SQA's overall risk management, internal control and corporate governance processes. The internal audit function is carried out by Scott-Moncrieff. Auditing standards require that internal and external auditors work closely together to make best use of available audit resources.

21. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carried out an assessment of the internal audit function. This confirmed that the internal audit function has sound documentation standards and reporting procedures in place and complies with the requirements of the Public Sector Internal Audit Standards (PSIAS).

22. During the year the internal audit team undertook a review of Payroll and Appointees Fees and Expenses. We reviewed internal audit's work and concluded that there were no weaknesses in the Payroll and Appointees Fees and Expenses control environments that could result in a material misstatement in the information produced from the system. Accordingly, we will place reliance on the operation of these controls for the 2019/20 financial statements audit.

23. In addition, we will, consider the work of internal audit in making judgements pertaining to our wider scope responsibilities.

National Fraud Initiative

24. The National Fraud Initiative (NFI) in Scotland brings together data from local government, health boards and other public sector bodies, to help identify and prevent a wide range of frauds against public funds. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent

claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

25. The current matching exercise produced 97 matches of which 12 were categorised as priority. All priority matches have been investigated and other matches have been reviewed, [exhibit 3](#). The results of NFI activity were reported to the Audit Committee.

26. Overall, the arrangements in place to investigate matches and the processes employed by SQA are satisfactory.

Exhibit 3 NFI activity



97

Matches



12

**Recommended for
investigation**



97

**Completed/closed
investigations**

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

Audit dimensions work

Equalities and diversity

27. The Equality Act 2010 came into force in 2011. The Act included a public sector general duty, which requires that public authorities have 'due regard' to how policies or decisions affect people who are protected under the Act and the advancement of equality of opportunity. In 2012 Scottish Ministers made regulations that placed specific duties on Scottish public bodies to help them meet the general duty.

28. The SQA is required to report progress on mainstreaming the public sector equality duty and to report progress on its published equality outcomes (targets). As part of our interim work we conducted a high-level review of the SQA's arrangements for meeting its statutory responsibilities.

29. The SQA published its *Equality and Mainstreaming Report 2019* in April 2019 and made this available to the public on its website.

30. Sections 1 and 2 of the Equality Mainstreaming Report provides an overview of the SQA's work on equality detailing how it has integrated equality into its work and has taken account of its equality duties in its programmes and approaches. The report contains the required information on employment equalities and the gender pay gap. Equal pay audits are conducted every year and published internally with an equal pay statement available on the website. The report also contains information on the makeup of the SQA board.

31. Our work also identified a range of activities across the organisation which address other requirements of the Act, these include:

- Publishing an Equality Outcome report every 4 years setting out the SQA's equality outcomes; as an employer, as an awarding body and on accreditation.
- The creation of an Equality and Diversity Network to offer advice to the SQA in respect of diversity and equality and to collaborate on specific projects.
- Being a Disability Confident employer in successfully employing, supporting and retaining disabled people and those with health conditions.
- Membership of the NDPB Equality Forum.
- SQA has created a single unit award "Challenging stereotypes: encouraging gender balance".

32. Following discussion with the Equality and Diversity Manager the following areas of improvement have been identified;

- Equality Impact assessment – Although they are consistently used by HR, there is room for improvement in the design and application of the assessment.
- Equalities section of the staff intranet is still to be developed. Currently the equalities and diversity information are not as well presented for staff as it could be.

33. Overall, we conclude that the SQA appropriate arrangements has arrangements in place to ensure that it meets its statutory responsibilities.

Website accessibility

34. The Public Sector Bodies (Websites and Mobile Applications) (No. 2) Accessibility Regulations 2018 were introduced to improve the accessibility of public sector websites and mobile apps. The regulations build on the obligations of public sector bodies equalities duties and require public sector websites and mobile apps to be more accessible by making them 'perceivable, operable, understandable and robust'.

35. A website or app will meet requirements of the regulations if:

- it meets the criteria set out in the international Web Content Accessibility Guidelines (WCAG)
- an accessibility statement is published.

36. The SQA has initiatives in place to ensure compliance including:

- User experience testing is undertaken to ensure that changes made are acceptable.
- Software programmes are also used to help improve the quality of the web pages.

37. The accessibility statement indicates the following areas of non-compliance:

- Some images do not have a text alternative, people using a screen reader cannot access the information.
- Some older PDF documents are not fully accessible to screen reader software.
- Webinars are not fully accessible as they do not have captions
- Skipping to the main content does not function when using a screen reader.

38. The deadline for meeting the new requirements is September 2020. The SQA has plans in place meet this deadline.

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