

# Scottish Qualifications Authority

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Qualifications Authority and the Auditor General for Scotland  
July 2021

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# Key messages

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## 2020/21 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 Due to the impact of Covid-19 there were delays to the preparation and audit of the 2020/21 annual report and accounts.
- 3 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 financial statements and properly prepared in accordance with guidance.

## Financial sustainability

- 5 SQA reported an underspend of nearly £9.25 million against its resource funding departmental expenditure limit in 2020/21. This was mainly due to the cancellation of the exams diet.
- 6 The Scottish Government's plans to replace the authority, as well as the ongoing impact of Covid-19, will limit the extent to which the authority can plan longer-term governance, transparency and value for money.

## Governance and transparency

- 7 Governance arrangements have been adapted to reflect the impact of the Covid-19 pandemic. We have considered these measures and have concluded that SQA has appropriate and effective governance.
- 8 The Scottish Government's decision to replace the SQA means a period of significant change lies ahead. It will be important for governance arrangements to remain effective to ensure staff and stakeholders are supported throughout the transition to a potential new specialist agency.

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# Introduction

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1. This report summarises the findings from our 2020/21 audit of the Scottish Qualifications Authority (SQA).
2. The scope of our audit was set out in our Annual Audit Plan presented to the the SQA's Audit Committee on 15 March 2021.
3. The main elements of our audit work in 2020/21 have been:
  - an audit of the SQA's 2020/21 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.

## Responsibilities and reporting

4. 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 accounts direction from the Scottish Ministers.
5. The SQA is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.
6. 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.
7. Audit Scotland's Code of Audit Practice 2016 includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then annual audit work can focus on the financial sustainability of the body and the disclosures in the governance statement. In our 2020/21 Annual Audit Plan we conveyed our intention to apply the small body provisions to the 2020/21 audit of the SQA's annual report and accounts.
8. Best Value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver the best

possible outcomes for citizens. The duty of Best Value is a formal duty on the agency's Accountable Officer. As we have applied the Code of Audit Practice small body provision to the audit of SQA, our wider responsibilities do not fully apply. Our Best Value work is limited to our audit work on financial sustainability and governance arrangements.

**9.** This report raises matters arising 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.

## Auditor Independence

**11.** 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.

**12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £49,020 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**13.** This report is addressed to both the body and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

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

## Adding value through the audit

**15.** We add value to the SQA through the audit 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, performance management arrangements and financial sustainability.

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# 1. Audit of 2020/21 annual report and accounts

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

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## Main judgements

Our audit opinions on the annual accounts are unmodified.

Due to the impact of Covid-19 there were delays to the preparation and audit of the 2020/21 annual report and accounts.

Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.

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

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## Our audit opinions on the annual report and accounts are unmodified

**16.** The annual report and accounts for the year ended 31 March 2021 were approved by the management board on 1 September 2021. We 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
- expenditure and income were regular and in accordance with legislation and guidance issued by Scottish Ministers
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

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

## There were delays in preparing and auditing the annual report and accounts due to the impact of Covid-19

**18.** As a result of the continuing impact of Covid-19, the Scottish Government extended the deadline for submission of central government audited annual reports and accounts from 30 June 2021 to 31 August 2021. This mirrored the 2019/20 arrangements.

**19.** The unaudited annual report and accounts were received on 20 May 2021, which was later than our agreed audit timetable date of 10 May. Further, some key elements of the annual report, including the financial overview, were provided late in the audit process. The delay was due to difficulties in obtaining financial data as a result of Covid-19, and pressures due to other priorities. There were also numerous amendments required to the draft annual report and accounts following their submission to audit.

**20.** Although ongoing restrictions meant that SQA and audit staff worked remotely, we were able to gather sufficient audit evidence on which to draw our conclusions. 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 within the statutory deadline of 31 December 2021.

## Overall materiality was £0.743 million

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

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£0.743 million
Performance materiality	£0.446 million
Reporting threshold	£15,000

Source: Audit Scotland

## Three risks of material misstatement were identified

**22.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. Our assessment highlighted three risks of material misstatement:

- The impact of Covid-19
- Management override of controls

- Risks arising from estimations and judgements.

**23.** These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

### **Significant findings from the audit**

**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 SQA's accounting practices.

**25.** Significant findings are summarised at 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.

**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 financial statements

Issue	Resolution
<p><b>1. Consideration of going concern</b></p> <p>The Cabinet Secretary for Education and Skills made a statement to the Scottish Parliament on 22 June 2021 stating that the Scottish Qualifications Authority (SQA) would be replaced.</p> <p>The accounts have been prepared on a going concern basis. Due to the announcement we considered accounting guidance and the Financial Reporting Manual (FRM) to ensure that the use of the going concern assumption remained appropriate. As the functions of the SQA will continue to be delivered by the body until the reform is complete, we concluded that a going concern basis was appropriate. At that time the functions will transfer and continue to be delivered by an alternative public sector body.</p>	<p>For information only.</p> <p>We believe that the use of the going concern basis of accounting remains appropriate for the 2020/21 annual report and accounts.</p>
<p><b>2. Non current assets valuation</b></p> <p>Where assets are no longer in use they should be formally disposed of. Assets continuing in use should be revalued and depreciated over the remaining useful economic life. We found that SQA had 63 assets on its fixed asset register (primarily IT-related) with a gross value of £10.026m that were fully depreciated but remained in use.</p> <p>If SQA continues to use assets that are fully depreciated, they should consider whether they should be revalued and depreciated over the estimated further useful life. Management estimated that if a revaluation were to take place, then the increase to the value of non current assets disclosed would likely be material.</p>	<p>Management agreed to revalue all assets that have a Net Book Value (NBV) of zero and an initial cost of greater than £50,000. This comprised 31 of the 63 assets identified, and accounted for 93% of the total value. This resulted in the value of property, plant and equipment, and intangible assets, increasing from £1.78m to £4.23m (an increase of £2.45m) and the accounts were adjusted accordingly.</p> <p>Management has resolved to undertake a full review of accounting for non current assets in 2021/22.</p> <p><b>Recommendation 1</b> (refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>3 Disposal of non current assets</b></p> <p>During the year, SQA completed an asset verification exercise to identify assets that were on the asset register but no longer in use/already disposed of.</p> <p>This identified a total of 95 assets, all with NBV of zero, which were on the asset register but were either no longer in use or previously disposed of.</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><b>Recommendation 2</b> (refer <a href="#">Appendix 1</a>, action plan)</p>

Issue	Resolution
<p>There was no authorisation or supporting documentation for each of these disposals.</p> <p>We reported a similar issue in respect of documentation held for asset disposals in 2019/20 and recommended management implement a policy and process for the disposal of assets. Monthly meetings between Heads of Service (who control assets) and the Programme Finance Manager are now in place, but there remains no formal documentation requirements for disposals.</p>	
<p><b>4. Accrual of entry fee income</b></p> <p>The accounts include an estimate of a portion of the income relating to entry fees, largely due to timing issues. Institutions were able to submit entries up to the 14 May 2021 this year (previously 31 March), and so SQA included an additional amount of £300,000 to account for the expected number of student entries received in the first two weeks in May.</p> <p>This additional amount was based on the difference between the 2020/21 and 2019/20 accrual figures with the expectation of a small increase in student entries during 2020/21. Management was unable to provide actual transaction detail to support this estimate.</p>	<p>We have reviewed the methodology and calculation of the estimate, and have concluded that a material difference between actuals and the estimate is unlikely.</p> <p>Management has advised that this is likely to be a one-off event due to the extension of submission dates.</p>
<p><b>5. Holiday pay accrual</b></p> <p>IAS 19 (Employee benefits) requires bodies to recognise the liability for any untaken holiday at the year end that can be carried forward. The initial draft accounts included an accrual of £1.648m within trade payables relating to untaken staff holidays (accumulated absences accrual). This accrual included salary costs, but did not include associated employer's national insurance and pension contributions. In addition, the methodology used to calculate the accrual did not reflect the average staff salary. In line with IAS 8, no prior year restatement was made as this was estimated to be immaterial.</p>	<p>Management agreed to revise the calculation and correct the financial statements to include NI and pension contributions, and to reflect the average staff salary. This increased the total accrual by £0.946m to £2.595m.</p>
<p><b>6. Post balance sheet event</b></p> <p>Under IAS 10 (Events after the Reporting Period), SQA is required to disclose events after the reporting period which are material, for example future restructuring plans. We consider that the announcement by the Cabinet Secretary for Education and Skills on 22 June 2021 on the future of the SQA constitutes a non-adjusting post</p>	<p>Management agreed to include this as a non-adjusting event after the reporting period in the notes to the financial statements.</p>

Issue	Resolution
balance sheet event worthy of disclosure in the accounts. The announcement took place subsequent to the draft accounts being submitted for audit.	

Source: Audit Scotland

## Evaluation of misstatements

**27.** We identified total misstatements in the unaudited annual report and accounts with a gross value of £3.396 million.

**28.** We reviewed the nature and causes of these misstatements and have concluded that they were isolated and identified in their entirety and do not indicate further systemic error. We reviewed our audit approach and concluded that no additional testing was required.

**29.** Adjustments made in the audited accounts increased net expenditure in the Statement of Comprehensive Net Expenditure by £0.946m and increased net assets in the Statement of Financial Position by £1.504m.

## Other matters noted during our audit

**30. Increased disclosure of tax paid:** International Accounting Standard 1 (Presentation of financial statements) states that tax expenses should be separately disclosed on the face of the statement of comprehensive income and expenditure. SQA paid approximately £0.379m of corporation tax in 2020/21 due to a portion of its income being generated overseas. Management agreed to amend the accounts accordingly.

**31. Goodwin tribunal:** the Goodwin tribunal case changes the pension entitlement of male survivors in opposite sex marriages to take into account the female member's service from 6 April 1978. Previously, entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005 and affects the pensions of male spouse survivors whose entitlement arose on or after this date. SQA has added a contingent liability note to its accounts to disclose this matter. We are content with this disclosure.

**32. Staff Christmas savings fund:** Included within 'other payables' is a balance of £0.085m relating to funds held by SQA as part of the staff Christmas savings fund. There is a corresponding balance in the Cash & Cash Equivalents note, as the money is held within SQA's bank account. We recommended that the SQA disclose the Christmas savings monies held within relevant notes to the financial statements. Management agreed to adjust the financial statements note accordingly.

**33. Signed authorisations:** 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. Although the Covid-19 pandemic has created difficulties in this area, SQA should consider reviewing options to

implement an electronic signature system for decisions which require more formal approval. **Recommendation 3** See [Appendix 1](#) Action Plan.

**34. Operating segments:** International Financial Reporting Standard 8 (Operating segments) requires entities to report segmental financial information based on geographical locations. SQA carries out activities outwith the UK and generated income and expenditure on these activities during 2020/21. The financial statements submitted for audit included limited information on financial performance by directorate or geographical location. **Recommendation 4** See [Appendix 1](#) Action Plan.

**35.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted all identified misstatements above our reporting threshold.

### **Some progress was made on prior year recommendations**

**36.** SQA has made some progress in implementing our 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](#).

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## 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

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### Main judgements

SQA reported an underspend of £9.25 million against its resource funding departmental expenditure limit in 2020/21

The Scottish Government's plans to replace the authority, as well as the ongoing impact of Covid-19, will limit the extent to which the authority can plan longer term

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### The SQA operated within budget in 2020/21, reporting a significant underspend due to the cancellation of the 2021 exam diet

**37.** 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.

**38.** The main financial objective for the SQA is to ensure that the financial outturn for the year is within its agreed budget and the grant in aid allocated by the Scottish Government. The finance function provides regular, timely and up-to-date information on the financial position to the Board and its committees.

**39.** The SQA's budget sets out the level of grant-in-aid required from the Scottish Government. The amount of grant-in-aid allocated by the Scottish Government is termed the Departmental Expenditure Limit (DEL). The SQA receives an annual allocation of resource DEL to fund current expenditure, and capital DEL to fund investment in assets. Resource DEL is further split into cash and non-cash (ringfenced) elements.

**40.** The Board of Management approved SQA's 2020/21 draft budget in March 2020, which set out the level of funding required from Scottish Government at £48.8m. However, following the cancellation of the exams diet in 2021, which was announced in December 2020, this was revised downwards. The Board was provided with updates to understand how events affected the financial forecast.

**41.** At the Board of Management meeting held on 18 March 2021, management provided non-executive board members with a budget monitoring update for quarter three. The budget was balanced, with total net expenditure of

£24.3m expected to be met with Scottish Government funding of the same amount. SQA has reported an actual resource DEL outturn of £16.079 million against an allocation of £25.330m, a net underspend of £9.251 million. This is consistent with the projected outturn reported to the Board in March 2021. The financial performance against budget is set out at exhibit 3.

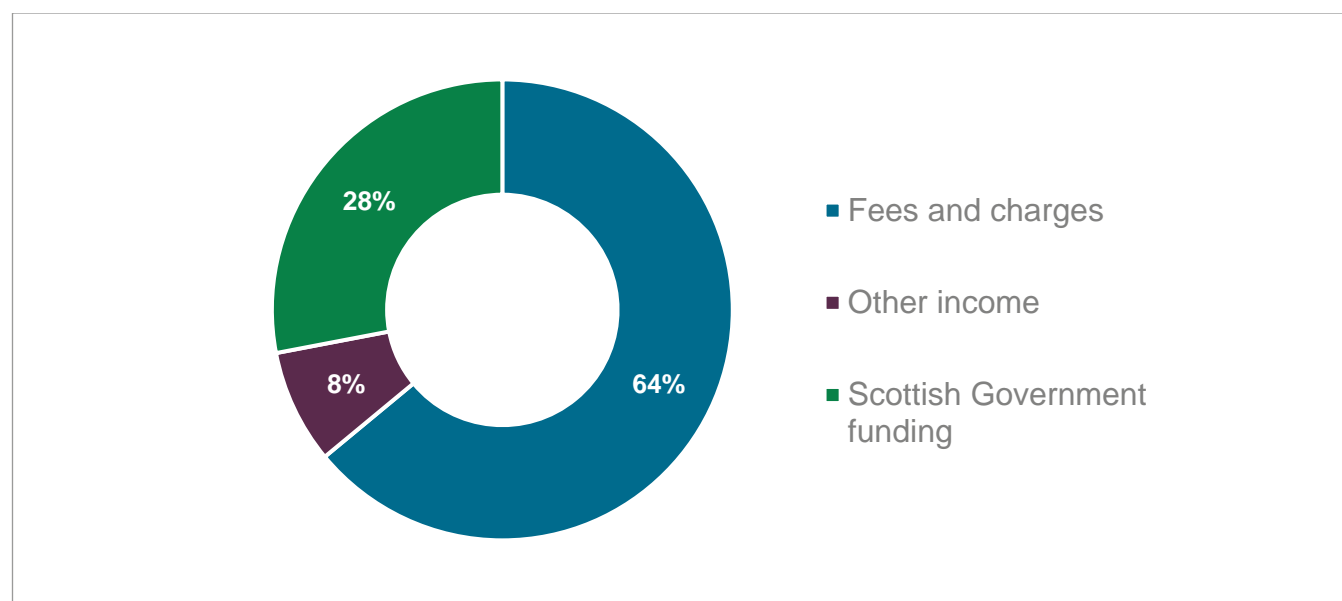
**42.** SQA drew down significantly less this year largely as a result of the cancellation of exams diet in 2020/21, itself a direct impact of Covid-19. Appointee-related costs were reduced by £18 million from the previous year, with other savings from property expenses (£1.9m) and staff subsistence and expenses (£1m).

**43.** In 2020/21, entry fees and other income generated £45.247m, accounting for 72% of total income (2019/20: 56%). Funding from the Scottish Government (£17.722m) made up the remainder.

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### Exhibit 3

#### SQA's sources of income in 2021/22



**44.** The SQA incurred DEL funded capital expenditure of £1.643 million this year, an underspend of £0.671m. This spend was mainly on the purchase of IT equipment and software development.

**45.** Depreciation, amortisation and impairment are accounting concepts that reflect the cost of the use of non-current (eg buildings, equipment etc) assets within an organisation's financial statements. The Scottish Government provides non-cash budget allocations to meet these costs. Requests for this funding are made through the monthly monitoring returns. Outturn against DEL in 2020/21 is set out at [Exhibit 3](#).

**Exhibit 3****Performance against DEL in 2020/21**

Performance	Final DEL £m	Drawdown £m	Under/(Over) spend £m
Resource DEL	25.33	16.079	9.251
Capital DEL	2.314	1.643	0.671
Ring-fenced DEL	3.7	3.108	0.592
Non cash DEL (AME & HMT)	6.995	30.447	(23.542)
Total DEL	38.339	51.277	(12.938)

Source: SQA annual report and accounts 2020/21

### **The authority has agreed a balanced budget for 2021/22, however this will be subject to ongoing review**

**46.** The SQA generates a significant portion of income from fees and charges, but relies on the Scottish Government providing deficit funding. The Scottish Government's 2021/22 budget was published in January 2021. SQA's core budget for 2021/22 is £17.887m, an increase of 2.3% from the 2020/21 core budget allocation. The budget also provided a £2.5 million capital allocation. As with previous years, the Scottish Government does not allocate the full amount of resource budget required by SQA at the start of the financial year. Further tranches of funding will be allocated during the year as part of the Spring and Autumn budget revisions.

**47.** The Board of Management agreed a balanced budget on 18 March for 2021/22. The budget was for 'business as usual', assuming delivery of the Alternative Certification Model for 2021 and preparations for an exam diet for National Qualifications in 2022 as well as the continuation of other SQA activities. The total budgeted gross expenditure for SQA in 2021/22 is £88.4 million, which includes £4.4m of capital funding.

**48.** The SQA's 2020-23 Corporate Plan sets out the organisation's strategic goals, outcomes and performance measures. Strategic goals are mapped against the Scottish Government's eleven National Outcomes. In March 2021, SQA approved its annual business plan for 2021/22, which set out SQA's immediate priorities.

**49.** Given the announcement in June 2021 of the Scottish Government's intention to replace the authority, and the even shorter-term impact of Covid-19 on the ability to plan the exams diet, financial planning remains tightly constrained.

**50.** The SQA's budget monitoring arrangements will be key in ensuring it delivers its strategic priorities within its allocated budget in 2021/22. SQA will need to continue to keep its budget under review, and continue close dialogue with the Scottish Government, to ensure the impact on activities is reflected in financial forecasts.



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# 3. Governance and transparency

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

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## Main judgements

Governance arrangements have been adapted to reflect the impact of the Covid-19 pandemic. We have considered these measures and have concluded that SQA has appropriate and effective governance.

The Scottish Government's decision to replace the SQA means a period of significant change lies ahead. It will be important for governance arrangements to remain effective to ensure staff and stakeholders are supported throughout the transition to a new specialist agency for curriculum and assessment.

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## Effective governance and decision-making arrangements were in place during 2020/21

**51.** Our review of the governance arrangements at SQA 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.

**52.** There were no significant changes to these arrangements during 2020/21, except for the refreshed Framework Document that was approved and published in August 2020. This document was considered by the board prior to it being published on its website. It sets out the broad framework within which SQA operates and defines key roles and responsibilities which underpin the relationship between SQA and the Scottish Government.

**53.** SQA's independent internal audit function, carried out by Azets, reviewed corporate governance arrangements in place and reported in June 2021. 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.

**54.** We have concluded that our previous year's judgement remains relevant; 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.

### **Governance and operational arrangements were adjusted in light of ongoing Covid-19 disruption**

**55.** The Chief Executive was a member of the national [Covid-19 Education Recovery Group](#) throughout 2020/21. The group provided advice on education policy in the context of the response to the Covid-19 pandemic and decisions around the re-opening of schools.

**56.** The impact of Covid-19 from March 2020 has been set out in the Governance Statement in the body's annual report and accounts. In response to Covid-19, initially the SQA Board met every week, moving to fortnightly in July 2020. The Executive Management Team (EMT) began meeting daily, as the strategic crisis management team, informed by the Incident Management Team (IMT) leader.

**57.** SQA's business plans for 2021/22 include commitments to implement its smarter working programme, aiming to redesign office space, enable a digital workplace and improve staff communications and wellbeing.

### **An Alternative Certification Model was introduced to replace the 2021 examination diet**

**58.** When the exams were cancelled in 2020 because of the pandemic, the Deputy First Minister asked the SQA to develop an alternative certification model. In the absence of a diet of examinations, this certification model was based on teacher judgement of inferred attainment. The results were initially moderated by the SQA using a statistical algorithm that standardised teacher estimates based on the centre's recent attainment. Following the publication of results to learners, the Scottish Government overturned that approach due to concerns about unfairness. Final awards were based on teacher judgements although a small number of learners who had results moderated upwards were allowed to keep a higher grade.

**59.** The National Qualifications 2021 Group was established in October 2020. The group co-created the Alternative Certification Model (ACM) in use in 2021 and has revised it in light of the second period of lockdown and remote learning. The results in 2021 are based on demonstrated attainment alongside teacher judgement and a quality assurance process, but no statistically based moderation process will be applied.

**60.** The National Qualification 2021 Group is chaired by the SQA and draws its membership from the Association of Directors of Education in Scotland (ADES), Colleges Scotland, Education Scotland, the Educational Institute of Scotland (EIS), School Leaders Scotland (SLS), the Scottish Council of Independent Schools (SCIS), the Scottish Government, the National Parent Forum of Scotland (NPFOS) and the Scottish Youth Parliament.

## The Scottish Government has announced plans to replace the Scottish Qualifications Authority

**61.** The Organisation for Economic Co-operation and Development (OECD) review of Curriculum for Excellence was published on 21 June 2021. The OECD review identified 12 recommendations. The Cabinet Secretary for Education and Skills made a statement to the Scottish Parliament on 22 June 2021 stating that all 12 of the review's recommendations would be accepted in full.

**62.** At the same time, it was announced that the Scottish Qualifications Authority (SQA) would be replaced.

**63.** An advisory panel led by Professor Ken Muir CBE will be established that will lead work to replace the SQA and reform of Education Scotland with a new specialist agency for potentially both curriculum and assessment. The Chief Executive has noted SQA's commitment to working collaboratively to implement the recommendations of the report.

**64.** In his role as the Advisor, he will provide advice to the Scottish Government and the Cabinet Secretary for Education and Skills on aspects of education reform. This will include designing the implementation of the OECD's recommendations for structural change of SQA and Education Scotland, including delivery of the national curriculum, assessment, qualification and inspection functions.

**65.** This will include replacement of SQA, potentially with a new curriculum and assessment agency. In addition, the Advisor will consider the rationale and purpose for reform as set out by Scottish Ministers, and ensure that any structural reform is designed to achieve this.

**66.** This work will begin August 2021 and it is anticipated that it will conclude around 6 months' after this start date. It will be important for governance arrangements to remain effective over the coming months to ensure staff and stakeholders are supported throughout the transition period.

## Good progress has been made in complying with SQA's duty to equalities and diversity

**67.** Last year, we reviewed the authority's compliance with its public sector equality and diversity duty and its website accessibility. Our findings on the latter reviews were included in our interim management report, submitted to the June 2020 meeting of the Audit Committee.

**68.** Overall, we concluded that the SQA appropriate arrangements has arrangements in place to ensure that it meets its statutory responsibilities, but identified two areas of improvement:

- Equality Impact assessments – Although they are consistently used by HR, there is room for improvement in the design and application of the assessments.

- The equalities section of the staff intranet was still to be developed. Equalities and diversity information was not as well presented for staff as it could be.

**69.** Work is underway to improve capability and knowledge relating to equality impact assessment requirements. Measures are being taken to improve processes for monitoring and tracking completed equality impact assessments.

**70.** SQA is reviewing its training activities, including reviewing training on the Public Sector Equality Duty and online training on Equality Impact Assessments. A number of staff from the people directorate attended external equality impact assessment training in January 2021.

**71.** SQA has now developed an Equality and Corporate Parenting intranet site to promote awareness of SQA's legal responsibilities relating to the Public Sector Equality Duty and (Part 9 of the Children and Young People Act) Corporate Parenting.

### **SQA conducts its business in an open and transparent manner**

**72.** Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

**73.** There is evidence from several sources which demonstrate SQA's commitment to openness and transparency

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

**74.** Our review last year recommended SQA should consider whether the minutes of its various committees should also be published on its website. Minutes of the Audit Committee since 2017 have since been published, and preparations are under way to publish minutes from other committees.

### **The performance report meets financial reporting requirements, with scope for further improvement**

**75.** HM Treasury Financial Reporting Manual (FReM) requires a performance report to be included in a body's annual report and accounts. The purpose of a performance report is to provide information on the authority, its main objectives and strategies, and the principal risks that it faces. The FReM specifies that it should provide "a fair, balanced and understandable" analysis of a body's performance to meet the needs of Parliamentarians and other stakeholders.

**76.** In addition, 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.

**77.** Following receipt of the draft performance report presented for audit, we identified that there was scope to improve the report's narrative. We suggested it could provide a fuller picture of the events which led to the Cabinet Secretary's intervention to direct the SQA in August 2020. Management also agreed to incorporate the findings of the OECD report and announcement of the Scottish Government's intention to replace the SQA, which took place subsequent to the annual report and accounts being submitted for audit. Further iterations of the performance report were amended by management to include this information.

**78.** Management made improvements to the presentation of the draft performance report during the audit. However, there are further opportunities to develop the presentation, including the use of infographics for example. 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](#).

**79.** In 2020, the board decided that the performance report section of the annual report would be reviewed by the SQA's performance committee, while the financial statements section would be reviewed by the audit committee. This was agreed with the aim of improving the level of scrutiny overall.

**80.** In our view, the draft annual report and accounts should be viewed as a cohesive whole, and is best when reviewed and considered as a standalone document. FRC guidance on the annual report has been aimed at promoting cohesiveness and enable related information to be linked together.

**Recommendation 5** See Appendix 1 Action plan.

**81.** We have concluded that the authority's 2020/21 performance report is consistent with our knowledge and experience of the organisation and meets the requirements of the FReM.

### **The annual governance statement includes appropriate disclosure of the ongoing impact of Covid-19 during 2020/21**

**82.** The FReM requires inclusion of a governance statement in an annual report and accounts. The Scottish Public Finance Manual (SPFM) sets out guidance on the content and minimum requirements of the statement but does not prescribe a format. The authority's annual governance statement complies with SPFM guidance and presents a satisfactory explanation and assessment of SQA's governance arrangements for the year under review.

**83.** Public bodies have had to quickly change how they deliver services in response to the ongoing Covid-19 outbreak and the related restrictions introduced. The widespread use of virtual working and the rapid introduction of new programmes and services create a range of potential financial risks and challenges to internal controls. In its annual governance statement, the authority has made appropriate disclosure of the impact that Covid-19 has had on its governance arrangements in 2020/21 and the steps it has taken in response to this

## **The audited part of the remuneration and staff report was consistent with the annual accounts and has been prepared in accordance with applicable guidance**

**84.** The FReM requires the SQA to include a remuneration and staff report within its annual report and accounts that includes details of:

- the authority’s remuneration policy,
- details of the remuneration of senior officers, including pension entitlements, for the financial year (and prior year comparator); and accrued pension benefits figures at 31 March of that year,
- the number and cost of exit packages approved during the financial year, and
- a median pay disclosure and a range of other information on staff costs, numbers, and related activity.

**85.** We have no issues to report in relation to the information included within the remuneration and staff report in the authority’s 2020/21 annual report and accounts.

## **Internal audit’s opinion is that SQA’s governance, internal control and risk framework provides reasonable assurance**

**86.** Internal audit provides the Board of Management, the Accountable Officer and the Executive Management Team with independent assurance on SQA’s overall risk management, internal control and corporate governance processes. The internal audit function is provided by Azets. In addition, the SQA has an in-house audit programme which carries out ISO audits, led by the Internal Audit Manager.

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

**88.** Public Sector Internal Audit Standards are mandatory for all central government departments, agencies and executive NDPBs. The standards require the “chief audit executive” to provide an annual internal audit opinion and report that can be used to inform the annual governance statement.

**89.** The annual internal audit opinion, required by PSIAS and reported to the June meeting of the Audit Committee, concluded that the SQA has a framework of governance, risk management and internal control that provides reasonable assurance regarding the effective and efficient achievement of objectives. This opinion was subject to specific improvements identified in specific aspects of governance:

- the lack of fraud risk assessments being carried out to consider the areas most susceptible to fraud, and the fraud training needs of different staff groups not being captured within training plans.

- a lack of documentation of people and process-related cyber risks on the Business Systems Risks, Opportunities and Issues register (the majority of the risks on the register relate to technical cyber risks).

Management is actioning these and intend to address them by the end of 2021.

**90.** During 2020/21, we placed formal reliance on the work of internal audit's report on payroll as part of our audit of the annual report and accounts.

### **Relevant national performance audit reports are considered by the Audit Committee**

**91.** 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 SQA's Audit Committee. Reports published in 2020/21 are set out at appendix 3.

# Appendix 1. Action plan 2020/21

## 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Valuation and useful lives of non current assets</b></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><b>Risk</b> – 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><a href="#">Refer exhibit 2</a></p>	<p>We have undertaken a review as part of the Annual Accounts exercise for all assets with value of greater than £50k. This accounted for 93% of the value. We will complete the valuation on the remaining assets in FY 21/22.</p> <p>Responsible officer: Alan Dickson</p> <p>Agreed date: 31 March 2022</p>
<p><b>2. Disposal of non current assets</b></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><b>Risk</b> – 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><a href="#">Refer exhibit 2</a></p>	<p>Agreed. We will develop and implement a policy and process for disposal of non current assets.</p> <p>Responsible officer: Alan Dickson</p> <p>Agreed date: 31 December 2021</p>
<p><b>3. Signed approval of business cases</b></p>	<p>SQA should consider reviewing options to implement an electronic</p>	<p>All business cases are approved via email and it is felt that this is an adequate</p>



Issue/risk	Recommendation	Agreed management action/timing
<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><b>Risk:</b> That significant financial decisions are not appropriately authorised.</p>	<p>signature system for decisions which require formal approval.</p>	<p>level of approval. We will however give consideration to the implementation of an electronic signature system if it is felt this with strengthen controls.</p> <p>Responsible Officer: Alan Dickson</p> <p>Agreed Date: 31 December 2021</p>
<p><b>4. Segmental Reporting</b></p> <p>Segmental reporting in the financial statements is limited <b>(carry forward from 2019/20)</b>.</p> <p><b>Risk:</b> 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>Agreed. This forms part of the deliverables for the Cost Allocation Project which we will have in place by March 2022.</p> <p>Responsible Officer: Alan Dickson</p> <p>Agreed Date: 31 March 2022</p>
<p><b>5. Review of the annual report and accounts</b></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><b>Risk:</b> 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>We will give consideration to the approval process having consulted with both the Performance and Audit Committees.</p> <p>Responsible Officer: Alan Dickson</p> <p>Agreed Date: 31 March 2022</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Impairment review</b></p>	<p>Management should undertake an impairment</p>	<p>Outstanding.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>No impairment review of assets being brought into commission in 2019/20 was undertaken.</p> <p><b>Risk:</b></p> <p>Carrying value of assets does not reflect existing use value to the organisation.</p>	<p>review on all assets on an annual basis.</p> <p><b>Although SQA undertook a revaluation exercise in 2019/20, there remain significant issues concerning the annual valuation of non current assets.</b></p> <p><a href="#">Refer Appendix 1, recommendation 1.</a></p>	<p>Revised action. We will complete a revaluation of the remaining assets in FY 21/22. The review already undertaken accounted for 93% of the value.</p> <p>Responsible officer: Alan Dickson</p> <p>Revised date: 31 March 2022</p>
<p><b>2. Segmental Reporting</b></p> <p>Segmental reporting in the financial statements is limited.</p> <p><b>Risk:</b></p> <p>Disclosure is not compliant with the FReM and does not provide stakeholders with full information on the SQA's operations.</p>	<p>Management should review the position to ensure that appropriate segmental information is available for future years.</p> <p><b>We have re-raised this issue for 2020/21.</b></p> <p><a href="#">Refer Appendix 1, recommendation 5.</a></p>	<p>Outstanding</p> <p>This will be delivered as part of the Cost Allocation Project which is due for completion by March 2022.</p> <p>Responsible officer: Alan Dickson</p> <p>Revised date: 31 March 2022</p>

# Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

## Risks of material misstatement in the financial statements \*

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>Our audit testing of journal entries, accounting estimates, accruals and prepayments, and evaluation of significant transactions outside the course of normal business did not highlight any instance of fraud, not management override of controls.</p>
<p><b>2. Estimations and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of some material balances disclosed in the financial statements:</p> <ul style="list-style-type: none"> <li>the accrual of the exam fees is based on the service provided to 31 March in the academic year.</li> </ul> <p><b>Risk:</b> Misstatement of liabilities in the financial statements.</p>	<ul style="list-style-type: none"> <li>Review actual experience of significant estimates made in the prior year.</li> <li>Significant estimates and judgements are clearly explained in the notes to the accounts.</li> <li>Review appropriateness of accruals.</li> </ul>	<p>We reviewed the methodology and data used in calculating the accrual of entry fees and concluded that it was reasonable.</p>

## Wider audit dimension risks

Audit risk	Assurance procedure	Results and conclusions
<p><b>3. Impact of Covid-19</b></p> <p>The Covid-19 disruption has had a fundamental impact on what and how services are delivered by the SQA.</p> <p>Risk: The impact of Covid-19 will have a pervasive effect on all aspects of the SQA's operations and presents a wide range of risks for the 2020/21 audit.</p>	<p>We will continue to monitor the governance arrangements, including any temporary measures put in place as a result of the pandemic.</p> <p>We will review SQA's ongoing budget monitoring and medium term financial planning in the context of the challenges and uncertainties it is facing from the Covid-19 disruption.</p> <p>We will continue to discuss our audit approach, and timetable with management during the year to agree how we can work together to adapt and respond to changing circumstances.</p>	<p>We have monitored governance and budget monitoring arrangements and found them to be appropriate.</p> <p>We noted the impact of Covid-19 resulted in a delay to the draft annual report and accounts being presented for audit.</p> <p>We have reported our findings in the main body of this report.</p>

\* In our Annual Audit Plan for 2020/21 which was presented to the Audit Committee in February 2021, we identified two risks of material misstatement in the financial statements caused by fraud in both income recognition and expenditure. However, on completion of our interim audit work for 2020/21 we reconsidered both of these risks taking into account the results of our interim audit work and the requirements laid out in auditing standards. As a result, we rebutted the presumption that a material risk exists from fraud for both income recognition and expenditure. This is on the basis of the extent of income and expenditure which is received and issued to other parts of the public sector, including Scottish Government funding. We also reconsidered the extent of risk associated with IAS 19 and pension liability entries, and found the risk to be lower than first assessed.

For the areas that are subject to some risk, we considered the incidence of fraud using National Fraud Initiative and Counter Fraud Service outcomes. We assessed that the volume of transactions, that would need to be fraudulent to prove a material risk, is implausible. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We also review controls over key areas of risk.

# Appendix 3. Summary of 2020/21 national performance reports

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April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

# Scottish Qualifications Authority

## 2020/21 Annual Audit Report

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