SCOTTISH QUALIFICATIONS AUTHORITY A97/2 i

AUDIT COMMITTEE – 1 NOVEMBER 2021 For approval

Minutes of the ninety-sixth meeting of the Audit Committee held on Monday 16 August 2021 at 10 am by Microsoft Teams.

Members

* Mr H McKay (Convenor)
* Ms E Craig
* Ms A Davis
* Dr W Mayne
* Dr K Thomson

Officers

* Mr M Baxter
* Ms F Robertson
 Dr G Stewart

* indicates present

In attendance

Ms J Blair, SQA (A96/5 only)
███████, SQA
███████, SQA
███████, Azets
Mr A Dickson, SQA
███████, SQA
███████, SQA
███████, Audit Scotland
███████, SQA (A96/9 onwards))
Mr J McMorris, SQA (A96/5 only)
Mr D Middleton, SQA
███████, Azets (A96/1–A95/6 only)
███████, Audit Scotland

Observer

███████, Scottish Government

96/1 WELCOME AND APOLOGIES

The Convenor welcomed everyone to the ninety-sixth meeting, including Mr David Middleton, SQA Chair, ███████ and ███████ from Azets and ███████ and ███████ from Audit Scotland.

A welcome was also extended to ███████ from the Sponsorship Team at the Scottish Government.

Apologies for absence were received from Dr Stewart, Ms Crowley and ████████████ from Audit Scotland.

There were no conflicts of interest declared.

96/2 MINUTES OF THE PREVIOUS MEETING

i Approval of minutes from previous meeting

The minutes of the ninety-fifth meeting of the Committee held on 14 June 2021 were approved as an accurate record of the meeting.

ii Action Grid

The Committee noted the contents and closure of the three actions recorded in the Action Grid.

iii Workplan

It was highlighted that in a footnote a recommendation referred to Azets predecessor, Scott-Moncrieff, and it was agreed that the master file would be updated to rectify this.

The Committee noted the contents of the workplan.

96/3 MATTERS ARISING

A95/5 vi Internal Audit Activity - Azets - Internal Audit Annual Report 2020-21

It was highlighted that after the last meeting, minor narrative errors were identified within the report and the Committee noted that an updated version of the report from Azets had been received for the records. It was agreed that since there were no implications from the corrections the report would not be re-circulated.

96/4 INTERNAL AUDIT ACTIVITY – SQA

i SQA Internal Audit Work Report

Mr Dickson presented the report that detailed the progress against the 2021-22 Audit Plan and advised that progress remained at amber, and that the KPI had increased from 29% to 33%. It was anticipated the higher KPI was likely to continue into the next few quarters given the reduced number of outstanding issues and the lagging nature of the KPI. Nevertheless, progress continued to be made against Management Actions; two internal audit actions and 13 external audit actions were closed.

The Committee were mindful of the pressures on SQA staff, not just in response to the COVID-19 pandemic but the impact of the Scottish Government announcement that SQA would be replaced, and a new specialist agency created. The Committee was assured that SQA would continue to meet all of its governance arrangements.

In closing, the Committee welcomed that the KPI mechanisms would be considered with the intention to establish a more appropriate measure.

The Chief Executive joined the meeting.

ii   Internal and External Audit Tracker Reports

Internal Audit Tracker Report

As previously reported (A96/4 refers), two internal audit actions had been validated and closed by Azets and the following internal audit actions were covered during discussion:

▪ *174.4 - 1.1 Counter fraud policies (Counter Fraud Arrangements audit)*

In response to an enquiry around the Whistleblowing Policy, it was advised that there were procedures in place for individuals to take forward any concerns, including those that involved management. The processes were in accordance with the counter fraud arrangements section of SQA's Framework document.

▪ *174.5 - 2.1 Fraud risk assessments (Counter Fraud Arrangements audit)*

It was anticipated that the review and finalisation of all fraud risk assessments from across SQA would be completed shortly to address the internal audit action.

It was clarified that the narrative in the observation and risk section of the report was obtained from the individual internal audit reports and were accurate at that point.

The Committee noted the contents of the report.

External Audit Tracker Report

As previously reported (A96/4 refers), 13 external audit actions had been closed by Audit Scotland and the Committee noted the contents of the report.

Welcomed to the meeting was Ms Jean Blair, Director of Operations, and Mr John McMorris, Director of Business Development.

96/5 INTERNAL AUDIT ACTIVITY - AZETS

i   **Follow Up Report Q1 2021-22**

▆▆▆▆▆ presented the report for the period May to July 2021, which validated the previous two reports (A95/4 i and ii). Sufficient evidence had been received to validate and close two actions, the number of open actions had increased from eight to 16 due to actions associated with new reports and overdue actions had remained at seven.

Discussion took place around the conclusion's narrative, primarily the term adequate. It was explained that although only two actions had closed, management were actively addressing all actions and the narrative was to achieve the correct balance.

████████ took the opportunity to highlight that the number of overdue actions had remained below ten for a consistent period, including throughout the course of the pandemic.

The Committee noted the contents of the report.

ii **Internal Audit Progress Report**

████████ presented a summary of internal audit activity since the last meeting to the end of July 2021 and advised that four reviews had been completed against the 2021-22 Internal Audit Plan.

The Committee noted the contents of the progress report and the reports proposed for consideration at the next meeting.

iii **Internal Audit Report - Due Diligence Process: Human Rights**

████████ presented the report that reviewed the process for completing and approving Human Rights Impact Assessments as part of both the country appraisal process and the pre-approval for new centres due diligence process.

A positive report with well-designed and efficient controls in place, with several areas of good practice identified. Two opportunities for improvement were identified that would allow SQA to strengthen further the control framework.

The Committee were encouraged by the assurance provided by the findings and noted the contents of the report.

iv **Internal Audit Report – Alternative Certification Model**

████████ presented the report that reviewed the Alterative Certification Model (ACM) for National 5, Higher and Advanced Higher during 2020-21, from the co-creation process through to implementation.

The report identified that SQA's arrangements for developing, implementing and monitoring the ACM 2021 were well-designed with robust and efficient controls in place. Several areas of good practice and one minor opportunity for improvement was identified that would allow SQA to strengthen further the control framework.

During discussion it was enquired why there was no mention of the 2020 Lessons Learned log within the report, and if this had been considered during the fieldwork. In response, ████████ confirmed that that this area had been considered, nevertheless had not been explicitly mentioned within the report. Ms Blair assured the Committee that Lessons Learned were completed as a standard practice and the NQ Certification Programme Groups, managed and maintained log records, with regular updates reported to the SQA Board.

The Committee commended the rigorous project methodology that was testament to the team who achieved success in implementing the ACM in extremely challenging circumstances and welcomed that this prevailed in the internal audit findings. It was requested by the Committee that congratulations were passed to the team.

Encouraged by the assurance provided by the findings, the Committee noted the contents of the report.

v   **Internal Audit Report – 2021 Awarding Programme**

███████████ presented the report that reviewed the key processes and governance of the areas overseen by the 2021 Awarding Programme to assess progress against target outcomes and whether relevant recommendations from the Priestley review had been considered appropriately

A positive report with well-designed and efficient controls in place, with several areas of good practice identified. One minor opportunity for improvement was identified that would allow SQA to strengthen further the control framework.

The Committee was encouraged by the assurance provided by the findings and suggested that there could be an opportunity to make the report available more widely as testament to emphasise that SQA continues to maintain standards on delivering on processes and progress in difficult circumstances.

In closing, Ms Blair took the opportunity to provide recognition to the teams involved in this and the previous internal audit (A96/5 iv refers), particularly ███████████, Programme Director, Mr John Meehan, Head of Logistics and Customer Engagement, and Ms Margot McKerrell, Head of NQ Quality Assurance.

Ms Blair, Mr McMorris and ███████████ left the meeting.

96/6 2021-22 Q1 CORPORATE RISK REGISTER AND RISK, OPPORTUNITY AND ISSUES REPORT

███████████ presented in detail outcomes of the Risk and Opportunities Group that reviewed the Q1 Corporate Risk Register (CRR) and quarterly Risks, Opportunities and Issues (ROI) report. She highlighted that although there was an increase in figures for risks and opportunities since the last quarter, there was no cause for concern and reassured the Committee that this was anticipated as part of the development in the understanding of policy and procedures.

She went on to present the current status of the CRR that had been reviewed by the Risk and Opportunities Group and then endorsed by the Executive Management Team (EMT), including proposals on some risks since the last meeting.

- Risk 15CRR29R - Risk was associated with SQA being unable to recruit and retain key staff.

  Following a comprehensive analysis of the risk, it was identified that the original risk had been primarily around market supplements and specialism roles. Over time the risk had been augmented to encompass the recruitment and retention of key staff, which should be part of business as usual activity.

  Following reassurance that the risk would continue to be monitored and managed the Committee endorsed the termination of the risk from the CRR.

- Risk 14CRR20R - Risk was associated with a major incident, internal or external, affecting ability for SQA to operate and deliver.

    Actions had been taken to mitigate the risk, including the stability and maturity of Business Continuity Management System. Therefore, it was proposed to reduce the Post Score 'P' from four to three, resulting in an overall risk rating decrease to 30, with no change to the risk raking of Amber.

    The Committee endorsed the risk Post Score 'P' reduction.

- Risk 14CRR18R - Risk was associated with external factors or decisions impacting on SQA activities and / or operating model for 2021 and beyond.

    Activities remained on track for certification 2021 and it was proposed to reduce the Post Score 'P' from four to three, and the 'I' from 50 to 25, which changed the risk ranking from Red to Amber.

    It was highlighted that the narrative of the risk cause would be reviewed to enable a more focused risk, including reflecting any Ministerial direction, and impending publication of the OECD report and any consequences that would flow from this.

    The Committee endorsed both the risk Post Score 'P' and 'I' reductions.

- Risk 20CRR52R - Risk was associated with the end of the Brexit transition period, and without a trade deal or associated adequacy decision, transfers of personal data to the UK from the EU will be severely disrupted or cease.

    It was proposed to terminate the risk as the adequacy agreement was signed, and EU Commission had adopted adequacy decision for the UK data protection regime.

    It was highlighted that the duration of the adequacy was limited to four years and would be reviewed again after that period, with any reoccurring risk for SQA, as a result of that review, would be considered at the time.

    The Committee endorsed the termination of the risk from the CRR.

- Risk 21CRR56R - New risk

    It was proposed to add the new risk following the Scottish Governments announcement to replace SQA and the inability this could cause to retain and recruit key talent.

    The ratings of the risk were discussed, and it was agreed that given the uncertainty around job security for SQA staff, there should be no change from the Pre Score ratings to the Post Score ratings, with the overall risk rating at Red.

    Subject to the adjustment of the Post Score, the Committee endorsed the addition of the new risk to the CRR.

- Risk 21CRR57R - New risk

  It was proposed to add the new risk following the Scottish Governments announcement to replace SQA and the inability for SQA to maintain positive colleague and union engagement for the duration.

  The Committee reiterated that they were mindful of the pressures on SQA staff, not just in response to the COVID-19 pandemic but the impact of the Scottish Government announcement.

  The Committee endorsed the addition of the new risk to the CRR.

- Risk 21CRR58R - New risk

  It was proposed to add the new risk following the Scottish Governments announcement to replace SQA and the potential loss of customer confidence impacting on current and future contracts and income generating opportunities.

  The Committee endorsed the addition of the new risk to the CRR.

The Committee scrutinised the CRR and during discussion, the following was covered:

- Risk 20CRR41R - Risk was associated with Ofqual finding SQA Awarding body in breach of one or more of their conditions and take regulatory action against SQA.

  It was clarified that the risk was related to the potential to have impact on SQA's current reputation with business and the Committee was assured that the risk would continue to be closely monitored.

  The earlier new risk that was endorsed (Risk 21CRR58R refers) was around the future following the Scottish Governments announcement to replace SQA.

Discussion around the Scottish Governments announcement to replace SQA took place and the Committee welcomed that in order to respond to and support the work being undertaken by Professor Ken Muir, a core Project Team had been established. It was confirmed that consideration had been given around capacity for senior management to respond to the review in addition to operational business as usual activities, and all risk had been captured in a new risk register solely for the replacement of SQA. It was reiterated that SQA would continue to meet its statutory remit and governance arrangements.

The Chief Executive left the meeting.

96/7 COMMITTEE STANDING ORDERS

Mr Baxter presented the Standing Orders and reminded the Committee that this was part of the annual review to check that the remit accurately embraced the governance and role of the Committee.

The Standing Orders had been reviewed to ensure future proofing with pronouns, and as per the recommendation of the Azets Corporate Governance internal audit report, the date of the last review and approval date had been incorporated. Additionally, Section 11 would be revised to reflect the same narrative used in the Risk, Opportunity and Issues Management Policy.

Discussion led to the Azets Corporate Governance internal audit report, and it was clarified that although an annual review of effectiveness had been mentioned within the report, the recommendation was around annual private meetings with individual Board members.

After reviewing the Standing Orders in detail, the Committee considered whether there was a requirement to introduce specific narrative on the annual review of effectiveness to the Standing Orders. It was agreed that the Convenor would consider this further offline.

The Committee endorsed that any further amendments to the Standing Orders would be formally approved by the Convenor before they would be presented to the SQA Board for formal approval at its September meeting.

96/8 PROCUREMENT ANNUAL REPORT 2020-21

Mr Baxter presented the report that detailed the work and the contribution made by the Procurement Department over the financial year. To comply with legislation, under the Procurement Reform (Scotland) Act 2014 Part 2 section 18 the report would be published on SQA's website.

The Committee commented on SQA achieving the highest performance band (M1) from the Scottish Government's Procurement and Commercial Improvement Programme.

The Chief Executive re-joined the meeting, and Mr Scott Lennox, Senior Accounting Manager, was welcomed to the meeting.

96/9 EXTERNAL AUDIT ACTIVITY – AUDIT SCOTLAND – ANNUAL AUDIT REPORT

introduced the proposed report that summarised Audit Scotland's work in relation to the financial statements for the year ended March 2021. He went on to present the report in detail and drew particular attention to the positive key messages in the introduction of the report, and then the various action points within the action plan. Following approval of the financial statements by the SQA Board, it was noted that Audit Scotland expected to issue an unqualified and unmodified audit opinion on SQA's annual report and accounts for 2020-21. On behalf of Audit Scotland, he thanked SQA officers for their cooperation and support in reaching completion of the final report.

Reiterating previous discussion, the Committee commented on the narrative included in the key messages section around SQA entering a significant period of change following the Scottish Government's decision to replace SQA. ▮▮▮▮▮▮ advised that Audit Scotland would be monitoring the situation closely and would support SQA and the new specialist agency to ensure all necessary governance arrangements would be discharged through the transition period.

Discussion moved to the financial sustainability narrative included regarding SQA's reported underspend within the key messages section. The Committee agreed that it was imperative that it clearly explained that this was due to the cancellation of the exams diet in 2020 and 2021. The Committee endorsed that Mr Baxter and ▮▮▮▮▮▮▮ would agree revised narrative offline.

The recommendation around the review of the annual report and accounts was discussed and it was noted that the number of adjustments required was a result of the announcement by the Scottish Government after submission of the draft report to Audit Scotland. Nevertheless, consideration around the approval process would be undertaken.

The Committee noted the draft report and was satisfied that it was anticipated that there would be an unqualified audit opinion on SQA's annual report and accounts for 2020-21.

As Convenor of the Committee, Mr McKay recorded his assurances on the audit rigour and standards that had taken place and commended the report for submission to the SQA Board.

Dr Thomson left the meeting.

96/10 SQA AUDIT COMMITTEE ANNUAL REPORT 2020-21

Mr McKay, Convenor of the Committee, presented the Annual Report that summarised the main activities of the Committee for 2020-21. The report provided an assurance to the SQA Board that SQA's governance, risk management and control environment were satisfactory in 2020-21, and would support the SQA Board in its approval of the Annual Report and Accounts.

The Committee endorsed the positive assurances and conclusions of the report, approving it for remit to the SQA Board in September.

96/11 PUBLIC SERVICES REFORM (SCOTLAND) ACT 2010 – 2020-21 REPORT

To comply with legislation under the Public Services Reform Act (PSRA) public bodies were required to publish financial information as soon as practical following the end of each financial year.

The Committee reviewed the report and noted that it would be presented to the SQA Board in September for endorsement and that, as part of the public reporting framework, it would be published concurrently with the Annual Report and Accounts.

96/12 ANNUAL REPORT AND ACCOUNTS 2020-21

A minor typographical error within the cover paper was highlighted regarding the recommendation to note, rather than for approval. It was agreed that the master files would be updated.

Mr Baxter provided a comprehensive overview of the Annual Report and Accounts 2020-21. The Committee had also been provided with a detailed cover paper for the latter, which had highlighted the key points and explained any amounts beyond that covered in the notes to the accounts.

The Committee commented positively on the important commentary around the role and functions of SQA and the challenging future that was ahead for the organisation, particularly the statements from the SQA Chair and the Chief Executive.

In discussion, the Committee contemplated if the narrative around the significant role teachers, lecturers and support staff played to support leaners was sufficient. It was acknowledged that this would be considered and amended if appropriate.

The Committee approved the Annual Report and Accounts for remit to the SQA Board prior to submission to Ministers and the Scottish Parliament.

96/13 ANY OTHER BUSINESS

There was no further business raised.

96/14 DATE OF NEXT MEETING

The next meeting of the Committee would take place on Monday 25 October 2021 at 10am via MSTeams.

Postscript: The meeting was rescheduled to 1 November 2021.