

Mr James Dornan MSP
Convener
Education and Skills Committee
T3.40
The Scottish Parliament
Edinburgh
EH99 1SP

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Dear Convener

Pre-budget scrutiny

Thank you for your letter of 29 September asking me for a written submission to inform the Committee's pre-budget scrutiny of four public bodies. This submission draws on the 2015/16 annual audit reports (AARs) on Skills Development Scotland, Scottish Qualifications Authority and Education Scotland. I have made a separate submission relating to the Scottish Funding Council.

Education Scotland

Operational performance

The Committee is interested in how Education Scotland (ES) measures its impact on National Outcomes and National Indicators. ES assesses its own performance on an annual basis and reports this through its Annual Review and in the annual accounts. The AAR concludes that the majority of ES' reporting focuses on outputs produced during the year and not outcomes. There are limited numerical key performance indicators to allow year-on-year comparison of performance. The auditor recommended that ES should ensure that it is reporting performance against published targets that will allow performance to be measured on an ongoing basis. Performance should focus on outcomes as well as outputs delivered during the year.

In its management response to the AAR, ES said that it is continuing to work on developing its performance management and reporting with a view to focusing on outcomes as well as outputs. It aims to introduce a revised performance management framework to coincide with its 2016-2019 Corporate Plan.

Financial performance

ES successfully remained within budget for 2015/16. It reported an underspend of £0.2 million against a budget of £36.6 million (0.5%). Its initial budget allocation from the Scottish Government in 2016/17 was £1.5 million (6%) lower than the 2015/16 initial allocation. ES carried out a detailed business planning exercise to identify the resource requirements needed to deliver priority programmes as set by Ministerial decisions. This identified a shortfall based on the reduction in the indicative annual budget for 2016/17, and senior management agreed a number of efficiency savings and reductions in some non-priority programmes.

The auditor recommended that ES should continue to develop its business planning to allocate resources in the medium and long term, with a clear connection between planned spending and delivery of outcomes. The auditor also recommended that ES should develop its workforce planning to include an over-arching strategic workforce plan covering the whole organisation over the medium and long term.

Governance arrangements

The AAR identifies areas for improvement in ES' governance arrangements. The Management Board and Audit and Risk Committee (ARC) did not meet in line with their agreed terms of reference during 2015/16. Both are required to meet on a quarterly basis, but the Management Board only met once, and the ARC met on three occasions. There is a risk that the Management Board and the ARC are not fulfilling their duties as outlined within their respective terms of reference. The auditor also concluded that financial management arrangements could be improved through an increase in the degree of financial scrutiny applied by ARC members. Internal audit did not present any formal outputs to the ARC during 2015/16 due to staffing issues.

Scottish Qualifications Authority (SQA)

Key points arising from the annual audit for 2015/16 are summarised below.

Financial performance

The auditor issued an unqualified opinion on SQA's 2015-16 financial statements. The auditor concluded that, in terms of 2015-16, SQA had maintained strong control of the financial position and realised savings in the year. The auditor also reported that SQA has in place sound budgetary processes that are supported by a strong internal control environment. The auditor concluded that SQA's governance arrangements were appropriate.

In terms of financial performance – SQA reported grant funding income of £23.3 million (£21.4 million in 2014-15) and net expenditure of £27.4 million (£24.5 million in 2014-15), resulting in a deficit of £4.1 million (£3.1 million in 2014-15). After accounting adjustments, the operating deficit was £0.7 million (£0.8 million in 2014-15).

The auditor reported that the 2016-17 budget shows a challenging position, reflecting the impact of financial pressures; and noted risks in relation to financial sustainability. The 2016-17 budget assumes additional grant-in-aid of £12.3 million (£6 million in 2015-16) but this is expected to be offset by additional expenditure on staff, appointee and operational costs. In addition, the current model by which local authorities fund SQA for activity does not reflect the full costs of SQA providing the activity. This resulted in the Scottish Government providing additional funding to SQA in 2015-16. The auditor concluded that SQA is a going concern, given the expectation of further funds from the Scottish Government.

Performance and accountability

The nature of SQA's work means that a significant focus is on outputs. This includes assessing and awarding qualifications, and providing leadership, support and guidance. The performance and accountability report, included within the annual accounts, summarises outputs delivered and support provided. The auditor was satisfied that the information contained within the performance and accountability report was consistent with the financial statements.

Skills Development Scotland (SDS)

We commented on Skills Development Scotland in our report on Modern Apprenticeships, which we published in March 2014. We provided details from that report in response to a previous request from the Committee. I have attached this for your information. We are still considering our approach to following up the impact of our Modern Apprenticeships report, and we will be pleased to share that with the Committee when it is available.

Key points arising from the annual audit for 2015/16 are summarised below.

Financial performance

The auditor issued an unqualified opinion on SDS's 2015-16 financial statements. The auditor concluded that SDS had maintained a strong financial position, whilst meeting the Scottish Government's targets for new apprenticeship starts. The auditor also concluded that sound budgetary processes are supported by a

strong internal control environment and that SDS has sound and well-established governance arrangements.

In terms of the financial position, SDS reported total income of £221.5 million and total expenditure of £223.5 million, resulting in a deficit of £2 million. After accounting adjustments, SDS had an operating surplus of £0.7 million (£0.5 million in 2014-15)

The 2016-17 budget shows a break-even position. The auditor has noted that, until the Scottish Government confirms the further funds indicated in its funding letter to SDS, there is technically a going concern risk. However, the auditor has concluded that SDS is a going concern, given the further funds are expected; and because SDS has the ability to stop activity if necessary.

The auditor noted risks in relation to financial sustainability and value for money. The short term nature of confirmation for full funding for the year results in SDS committing to multi-year delivery with a technical risk of insufficient future funding. The auditor considered that value for money is compromised within Careers Trust Scotland Limited ('CTSL'). CTSL is a registered charitable company with one member, SDS. The principal activity of the company is to provide career information and guidance to the people of Scotland and, where appropriate, to provide financial support to projects which are consistent with this aim. CTSL holds cash and reserves totalling £5.6 million. In order to spend these, CTSL required budget cover from the Scottish Government but the Scottish Government has elected not to provide this cover, meaning CTSL cannot spend the cash and reserves.

Operational performance

SDS's primary focus in 2015-16 was providing funding for national training programmes. The Scottish Government sets targets on the number of new starts and SDS has consistently exceeded the target since incorporation.

Other areas reported by the auditor that may be of interest to the Committee are:

- SDS's tendering process provides evidence of scrutiny for value for money.
- SDS has streamlined services in line with government initiatives.
- SDS's performance against targets demonstrates a clear link between funding received and outcomes delivered, which has been continually improving at a pace that is appropriate to the risk and challenges facing SDS.
- SDS's compliance team has demonstrated continuous improvement by changing its approach in 2014-15 to focus on higher risk national training providers.

I hope this information is helpful to the Committee. If members would like any further information please contact Fraser McKinlay, Director of Performance Audit and Best Value.

Yours sincerely

Caroline Gardner
Auditor General for Scotland