

Scottish Qualifications Authority

Report on the 2009/10 Audit to Scottish Qualifications Authority and the Auditor General for Scotland

October 2010



 **AUDIT SCOTLAND**



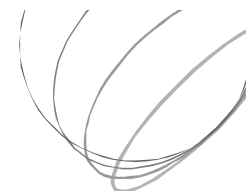
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Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by Scottish Qualifications Authority (SQA). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of SQA for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

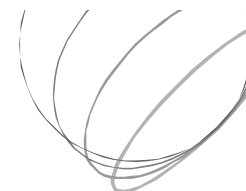
Financial position and use of resources

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes

SQA is required to work within the resource budget set by the Scottish Government. SQA achieved a surplus of £0.753 million in 2009/10. This is the difference between the net operating expenditure for the year of £16.705 million and the funding received from the Scottish Government of £17.458 million. SQA's Statement of Financial Position at 31 March 2010 shows net liabilities of £3.106 million (2008/09 net assets of £12.86 million). The movement is mainly as a result of the increase in pension liability of £16.4million.

Scottish Ministers have agreed a resource budget for SQA of £67.0 million for 2010/11, with £47.0 million of this funded from income, grant income of £17.7m funded by the Scottish Government with the remainder funded from other sources e.g. ESF. SQA has been awarded the same level of grant-in-aid as 2009/10 (£8.4 million) but will provide additional activity as outlined in the 2010-13 Corporate Plan and will absorb the impact of inflation. A break-even position is to be achieved through increasing income from commercial ventures and increased efficiency savings. This represents a significant challenge to the organisation at a time of economic uncertainty and market competition.

The Scottish Government announced on 1 April 2010 that SQA Dalkeith operations will relocate from Ironmills Road in Dalkeith to a new build office at Shawfair Business Park. The purpose of the new development is to provide more appropriate facilities, more suitable to the delivery of current services whilst supporting future developments in the wider corporate plan and strategic direction of the organisation.



Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for SQA operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

Performance

New national qualifications are being developed as part of the overall Scottish Government Curriculum for Excellence (CfE) Programme. SQA will lead on the design, development, testing and implementation of the new qualifications. SQA is accountable to its own Board for this function but is also accountable to the CfE Management Board which has responsibility for the overall CfE Programme. A review of SQA's state of preparedness to implement CfE was undertaken by Deloitte during autumn 2009. Actions to address the key findings and associated risks arising from the review were presented to the February 2010 Board of Management meeting and the Board is provided with regular updates on their status. We will continue to monitor developments in this area in 2010/11.

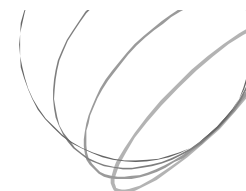
A revised Risk Framework is under development and principles of the revised framework were approved by the Executive Management Team in June 2010. The new framework includes a statement of core information requirements and revised templates are to be rolled out at corporate, operational, project and programme levels. SQA has also established a Corporate Programme Office to underpin their portfolio of major programmes and projects to ensure successful delivery.

Looking forward

The final part of our report notes some key risk areas and issues for SQA going forward. We highlighted the uncertainty of future Government funding settlements and the need to achieve efficiency savings within the 2010/11 financial plan. SQA also faces significant challenges in developing its business model over the coming years and in contributing to the continuing work associated with Curriculum for Excellence.

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

Audit Scotland
October 2010

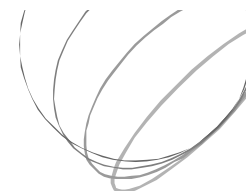


Introduction

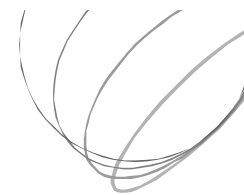
1. This report summarises the findings from our 2009/10 audit of SQA. The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was presented to the Audit Committee on 9 February 2010. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response.
3. Best value duties apply across the public sector and are a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body





4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
5. Throughout this report we comment on aspects of SQA arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of SQA, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and members of SQA during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

8. In this section we summarise key outcomes from our audit of SQA financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

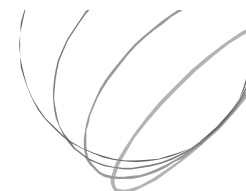
9. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of SQA and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises Who We Are and What We Do, Our Operating Environment, How We Operate, SQA's Objectives For 2009-10, Management Commentary, Performance and The Future within the financial statements
 - the regularity of the expenditure and receipts.
10. We also review the statement on internal control by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of SQA.

Overall conclusion

11. We have given an unqualified opinion on the financial statements of SQA for 2009/10.
12. As agreed the unaudited accounts were provided to us on 10 May 2010, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 20 July 2010 as timetabled.

Issues arising from the audit

13. As required by auditing standards we reported to the Audit Committee on 20 July 2010 the main issues arising from our audit of the financial statements. There were no issues which required to be brought to the attention of the Audit Committee.

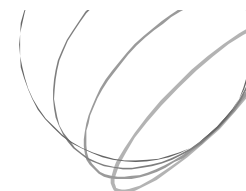


Regularity

14. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to her view on adherence to enactments and guidance.

International financial reporting standards (IFRS)

15. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
16. During 2009/10 we were required to review the shadow accounts and report on them to SQA by 28 February 2010. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.
17. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by SQA for audit for review on 25 November 2009 by the deadline date of 30 November 2009.
18. A number of matters were reflected in the February 2010 report arising from our review of IFRS 2008/09 shadow accounts which concluded that the following areas required further work by SQA to ensure that the full IFRS accounts in 2009/10 were true and fair:
 - Presentational issues in Statement of Cash Flows.
 - Clarification of disclosures made in the Notes to Accounts relating to Financial Instruments.
 - Disclosures relating to intangible assets.
19. These matters were considered further during our audit of the 2009/10 financial statements and were resolved following provision of full supporting documentation and discussion with officers.



Use of Resources

20. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of the financial position of SQA and the main issues identified in our national reports.

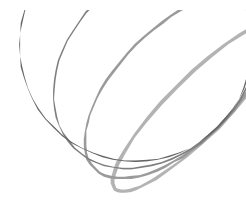
Financial Position

Outturn 2009/10

21. SQA is required to work within its resource budget set by the Scottish Government. For 2009/10 SQA had an overall surplus of £0.753 million. This is the difference between the net expenditure after interest for the year of £16.705 million and the total funding received from the Scottish Government of £17.458 million.
22. SQA's Statement of Financial Position at 31 March 2010 shows net liabilities of £3.106 million (2008/09 net assets of £12.86 million). The movement is mainly the result of an increase in the pension liability of £16.4million.

Scotland's public finances

23. The Auditor General's report on *Scotland's public finances, published in November 2009*, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

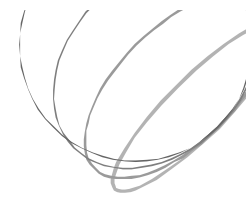


Extract from Auditor General's report *Scotland's public finances*

The public sector is coming under the greatest financial pressure since devolution.

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.
- The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.
- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.
- In the current economic climate difficult decisions will have to be made about priority spending programmes.
- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

24. Scottish Ministers have agreed a resource budget for SQA of £67 million for 2010/11. As part of the current efficient government programme, the SQA target for the Efficient Government Plan for the three years to 2010/11 is £1 million of cash-releasing savings. The additional savings required to be delivered by SQA for 2010/11 are £0.3 million and are to be achieved through savings on operational costs equivalent to the absorption of the effect of inflation. In 2009/10 efficiency savings came from the continuation of recurring efficiency savings made in previous years, particularly in reducing the



use of external venues for meetings, reduction in postage charges and outsourced printing, reduction in the use of temporary staff and savings from renegotiated contracts. New savings in 2010/11 will include the cessation of a lease on storage space which is no longer required and a move to on-line training of invigilators.

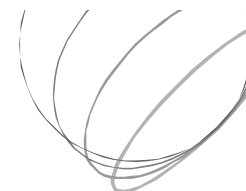
25. SQA currently operates on a break-even model of income generation. However, the SQA Corporate Plan 2010-13 records that the period of the plan will see a significant challenge in overall public sector funding levels and changes to fee income brought about by the economic environment, demographic changes, and by the flexibility of qualification choice offered by Curriculum for Excellence. The plan also records that it is therefore essential that SQA identifies additional revenue opportunities and maintains strong engagement in external markets to be able to generate annual sustainable commercial surpluses.
26. SQA's Business Development Strategy sets out their proposals for business development across all of their key markets up to the year 2020. Central to the Strategy is the establishment of a trading subsidiary. Following submission of a revised business case to Scottish Government, Ministers have now formally approved the establishment of a trading subsidiary, actions of which will be limited to carrying out international commercial activity. One of the conditions of Scottish Government approval is that a formal evaluation will take place after two years to test progress against the original objectives. Work is now underway in conjunction with the Scottish Government to progress the establishment of the Subsidiary.
27. We intend to keep this topic under review and will continue to monitor progress in establishing the Subsidiary and managing the associated risks.

Financial sustainability and the 2010/11 budget

28. Scottish Ministers have agreed a resource budget for SQA of £67.0 million for 2010/11. This is to be funded as follows:

Exhibit 2 – 2010/11 Resource Plan

Limits	Budget
	£million
Qualifications entry income	36.4
Other Income	10.6
Grant funding	20.0
Total	67.0



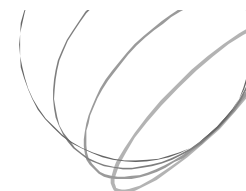
29. SQA has been awarded the same level of grant-in-aid as 2009/10 (£8.4 million) but will provide additional activity as outlined in the 2010-13 Corporate Plan and will absorb the impact of inflation. A break-even position is to be achieved through increasing income from commercial ventures and increased efficiency savings. Clearly there is a risk that this objective is not achieved. The risk is managed by SQA through a system of monthly financial reporting and quarterly forecasting on both an accruals and a cash basis. Any potential cash shortfall or surplus is identified through these mechanisms and remedial action is identified to address any imbalance. The report on financial performance to 31 August 2010 which was presented to the Board of Management on 6 October 2010 indicates that financial targets will be achieved for 2010/11. The report also records however that the most significant risk to the forecast assumptions is in respect of entries income, for which there continues to be uncertainty around the level of future candidates.
30. In the event that the SQA identifies an unmanageable cash shortfall they would consult with the Scottish Government on a financial resolution. We will continue to monitor the financial position of SQA and the actions taken to manage any financial challenges that arise.

Dalkeith relocation

31. The Scottish Government announced on 1 April 2010 that SQA Dalkeith operations will relocate from Ironmills Road in Dalkeith to a new build office at Shawfair Business Park. The purpose of the new development is to provide more appropriate facilities, more suitable to the delivery of current services whilst supporting future developments in the wider corporate plan and strategic direction of the organisation.
32. The new build office and storage facility will be occupied by SQA on a lease basis. The leases for both the office accommodation and storage facility will be for a period of 15 years from the date of entry. Our IAS 17 assessment, contained in our letter of 8 February 2010, was that the proposed lease terms for the Shawfair Office would likely result in an operating lease due to the present value of the minimum lease payments constituting less than substantially all of the fair value of the property.
33. A detailed project plan has been agreed by the Project Board and is being used to monitor progress and achievement of key milestones. We will continue to monitor progress of the development against the project plan during 2010/11.

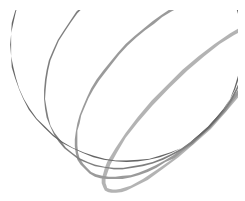
National Studies

34. Audit Scotland published one national study relevant to SQA's use of resources, "Improving Public Sector Purchasing".

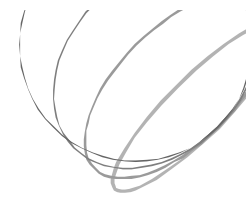


Improving Public Sector Purchasing

35. The overall aim of the study was to examine the progress of the Public Procurement Reform Programme (the Programme) in April 2006 in response to the McClelland report over the three- year period 2006/07 to 2008/09. The scope of the report concentrates on savings and the wider benefits secured as a result of the Programme. It identifies the risks to successfully achieving the Programme's aims and makes recommendations to manage these risks.
36. The McClelland report concluded that public sector structures, people and technology were not in place to deliver purchasing improvements and that urgent effort was needed. The Programme is ambitious in scope, scale and complexity. It aims to introduce substantial changes in how the public sector in Scotland buys goods and services and requires all public bodies to work together to deliver results. To be successful, public bodies must have the people and skills to manage the necessary changes, to act and think in new ways, and at the same time introduce new systems and approaches.
37. The Programme has made significant progress putting in place the processes, guidance and structures needed to improve public sector purchasing. However, some parts of the Programme have been delivered later than planned and it is not clear that it has yet achieved the level of improvement and impact sought at the outset. The Scottish Government intends to put in place a new plan from summer 2009 to help the Programme achieve its full potential.
38. Overall, the wider impact of the Programme appears positive. It has helped purchasing on a number of levels – from promoting and developing purchasing skills and awareness to increasing the use of electronic purchasing. The Programme has improved cross-sector working.
39. There are wide variations across public bodies in the quality of purchasing data, practice and skill levels. Best Practice Indicators (BPIs) to help improve purchasing have been agreed but many public bodies are still in the process of completing and using them. The Scottish Government is working with the centres of expertise and public bodies to encourage further improvement in these areas.
40. To demonstrate Best Value when purchasing goods and services, the report made a number of recommendations aimed at the Scottish Government and all public bodies. The recommendations most relevant to SQA as a NDPB include the need to:
 - have high-quality purchasing strategies and plans in place, including a plan to meet future workforce needs
 - have up-to-date information on their purchasing activities, such as supplier details, volume of transactions, value and type of spend
 - ensure all purchasing practices, including control of spending, comply with good practice as set out in national and centres of expertise guidance



- work with the Scottish Government and centres of expertise to identify and develop opportunities for collaboration and for improved purchasing practice
 - use BPIs to assess their performance and to continually improve how they buy goods and services
 - report savings and other benefits on a regular and consistent basis.
41. SQA has continued to roll out the electronic purchase order processing module during the year to cover the majority of purchases made by the organisation. We are advised that the system has led to efficiencies in the supplier payment processes with an average of 84% of suppliers throughout 2009/10 paid within 10 days. Whilst a few specific expenditure activities remain outwith the electronic purchase ordering process, a dedicated procurement section within the corporate office has been tasked with ensuring that the organisation is efficient and effective in its procurement activity. This is an area that we intend to cover as part of our 2010/11 audit activity.



Governance and Accountability

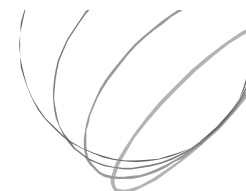
42. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of SQA arrangements.
43. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

44. This year we reviewed:
- key systems of internal control
 - internal audit
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
45. Our overall conclusion is that arrangements within SQA are sound and have operated through 2009/10.

Systems of internal control

46. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2009/10 PricewaterhouseCoopers, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year, did not identify any significant control weaknesses that were considered to be pervasive in their effects on the system on internal control.
47. As part of our audit we reviewed the high level controls in a number of SQA systems that impact on the financial statements. This audit work covered a number of areas including:
- Trade Payables
 - Payroll
 - Main Accounting
 - Trade Receivables
 - Budgetary Control
 - Cash and Cash Equivalents
 - Capital Accounting / Fixed Assets



Our overall conclusion was that key controls were operating effectively and that SQA has adequate systems of internal control in place. We did identify a number of minor areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed up as part of our 2010/11 work to confirm that the agreed improvements have been made.

Statement on Internal Control

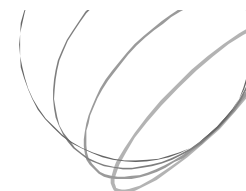
48. The Statement on Internal Control provided by SQA Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out SQA approach to this. There were no specific disclosures made in the Statement on Internal Control relating to weaknesses in the systems of internal control.

Internal Audit

49. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on SQA internal audit function. We concluded that PricewaterhouseCoopers operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2009/10, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.
50. As part of the planning process we also considered the work of the in-house SQA Internal Audit function and whether we could place reliance upon their work. In a separate briefing to the Audit Committee meeting of 11 May 2010, we reported that aspects of the in house team's practices and procedures did not conform to the requirements of the Government Internal Audit Manual. We therefore concluded that whilst there was value in considering their work, we would be unable to place formal reliance on their work.
51. SQA is currently considering a number of options in relation to internal audit provision however no decision has yet been made. We will monitor developments in this area as part of the 2010/11 audit.

Prevention and detection of fraud and irregularities

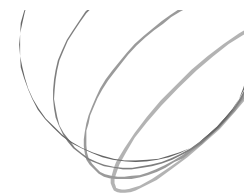
52. SQA has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.



53. In terms of good governance, an organisation must have appropriate mechanisms in place to ensure that board members and senior officers always act in the best interests of SQA, free from the influence and control of others. SQA has established a range of policies and procedures which cover the expected behaviour and conduct for board members and senior officers whilst discharging their duties on behalf of SQA. We found appropriate arrangements in place to ensure that any related party disclosures concerning an individual board member or senior officer within SQA are identified.

54. As part of the good governance ethos, the Code of Conduct for Board Members sets out the expected standards of behaviour for board members, and provide specific guidance on the acceptance of gifts and hospitality which may be offered to board members and senior officers as they discharge their duties on behalf of SQA. A gifts and hospitality register is maintained and is open to public inspection.

55. SQA has a well established policy for prevention, detection and investigation which is supported by an appropriate fraud response plan. During the course of the year there have been no reportable fraudulent incidents.

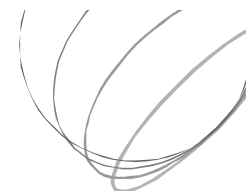


Performance

56. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
57. In this section we comment on:
- SQA corporate plan
 - performance
 - risk management
 - SQA efficiency programme.

Corporate Plan

58. The Board of Management approved the SQA corporate plan for 2009 – 2012 in December 2008. The Plan set the strategic direction for the period covering both the SQA's Accreditation and Awarding functions, and focused on 8 key strategic goals:
- Develop, deliver and maintain a portfolio of qualifications and services to support the needs and aspirations of Scotland and its people.
 - Provide a qualification and achievement record for learners.
 - Be regarded as a leader in assessment and quality enhancement of learning in Scotland, and recognised worldwide.
 - Ensure SQA activities support Scottish Government agenda to maximise the benefits to Scotland of international engagement.
 - Develop ways to recognise individuals' learning, skills and experience and capture their wider achievements, and provide quality assurance for these mechanisms.
 - Accredite and assure quality of qualifications, subject to demand, delivered in Scotland, other than those conferred by Higher Education Institutions.
 - Ensure high quality, continually improving, efficient and responsive service delivery.
 - Continue to develop and establish SQA as a benchmark public body.

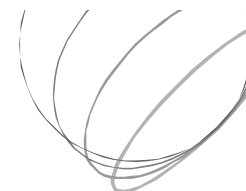


59. These strategic goals were mapped to the fifteen National Outcomes in the Scottish Government's National Performance Framework. Performance measures were also established as part of the Corporate Plan. These are reviewed by the Board of Management through quarterly performance reports. Performance against operational plans is also reviewed monthly by the Management Team.
60. A refreshed SQA corporate plan for 2010 – 2013 was adopted by the SQA Board in April 2010 and the Plan was approved by the Scottish Government in July 2010. The 2010-13 Plan builds on the approach taken for the 2009-12 Plan to ensure that the organisation's strategic goals support the Scottish Government's National Outcomes. The strategic goals have also been updated and now include a requirement to develop a business model that maximises funding and efficiency to allow SQA to meet its statutory obligations in the changing economic and public sector environment. Associated corporate actions for this goal include ensuring a sound financial base for the organisation, optimising income, making efficiency savings, reduce operating costs, and reviewing funding and pricing models.

Performance overview

Performance measures

61. As outlined at paragraph 56 above, quarterly performance reports are submitted to the Board of Management to reflect developments and progress across all business areas, including entry statistics and sales, stakeholder commentary, delivery performance and financial information.
62. The Board also receive at each meeting, a Business Development Report incorporating updates for international and UK based development activities, financial performance and progress against business plan objectives. The report on business development to 31 August 2010 which was presented to the Board of Management on 6 October 2010 indicates that the current surplus on commercial activity is some 10% less than forecast. The report also records that work is underway by SQA's lawyers to develop a draft version of the Memorandum/Articles of Association for the Trading Subsidiary.
63. The SQA Corporate Plan 2009/12 contains nine performance measures which translate into twenty-two performance indicators monitoring progress against the goals and corporate actions agreed with the Scottish Government. SQA achieved an 'on target' rating for eleven out of the twenty two performance indicators for 2009/10. For the remaining indicators, performance measures were unable to be produced at the time of the financial statements being prepared due to targets not having been set or previous year data was not comparable.

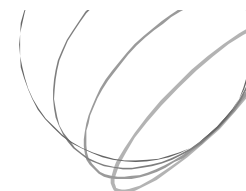


Curriculum for excellence

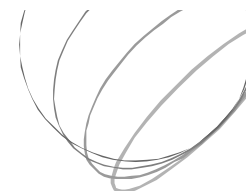
64. New national qualifications are being developed as part of the overall Scottish Government Curriculum for Excellence (CfE) Programme. SQA will lead on the design, development, testing and certification of the new qualifications. SQA is accountable to its own Board for this function but is also accountable to the CfE Management Board which has responsibility for the overall CfE Programme. SQA's Board of Management receive updates on progress against milestones for both SQA and for all partners in the CfE Programme.
65. A review of SQA's state of preparedness to implement CfE was undertaken by Deloitte during autumn 2009. The report arising from the review was discussed at the November 2009 SQA Board of Management meeting and the Executive Team was asked to develop an action plan to address the key findings and report on progress at future Board meetings. Actions to address the key findings and associated risks were presented to the February 2010 Board of Management meeting and the Board is provided with regular updates on their status.
66. The Scottish Government has worked with partners involved in the CfE programme to develop an overall CfE Programme Plan. Following a request by the Educational Institute for Scotland (EIS) that there should be a year's delay in the implementation of the new National Qualifications, the Cabinet Secretary for Education and Lifelong Learning asked the CfE Management Board for advice on whether the introduction of the new qualifications to be awarded from 2014 should be delayed. At its meeting in April 2010, at which they considered a range of evidence on progress of the programme, the CfE Management Board assured the Cabinet Secretary that the existing programme plan remains realistic and achievable.
67. We intend to keep this topic under review and will continue to monitor progress in implementing the Programme and managing the associated risks.

Risk management

68. An internal audit review of risk management arrangements in October 2009, recommended that the following improvements should be made to SQA's Risk Management Framework:
 - Buy in to the value of risk management.
 - Clarity of risk scoring and escalation paths.
 - Consistency of risk registers at corporate, operational and project levels.
 - Training and guidance material.
 - Central review of risk registers.

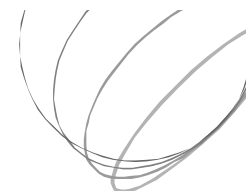


69. A revised framework is under development and principles of the revised Risk Framework were approved by the Executive Management Team in June 2010. The new framework includes a statement of core information requirements and revised templates are to be rolled out at corporate, operational, project and programme levels. SQA has also established a Corporate Programme Office (CPO) to underpin their portfolio of major programmes and projects to ensure successful delivery. Progress against dependencies and risks is monitored through the CPO framework whilst ownership and delivery of the projects and programmes rests with the individual programme boards and directors. The CPO has specific responsibility to undertake quarterly central review of risk registers. These are important developments for SQA which we will consider as part of the 2010/11 audit.
70. The main risk areas within the register of key strategic risks include:
- **Curriculum for Excellence** – this is a complex project involving a number of stakeholders working in partnership to delivery a multi-faceted policy within strict deadlines. There are a number of risks for example around resources and partnership working, which may prevent SQA being able to delivery on its commitments. The SQA Board is provided with relevant updates on actions to address these risks.
 - **Market Competition** – competition within SQA's marketplace is growing with an increasing number of Awarding bodies targeting the UK population. Work is on-going within SQA to monitor and track trends within the marketplace which will feature in business development plans and improvements being embedded in the business processes for the organisation moving forward.
 - **Information Security** – many of SQA's key business activities are technologically dependent, including its interaction with many of its customers. There is a significant risk of breaches in information security which could damage the business reputation of SQA. A range of policies and procedures, including creation of an Information management Steering Committee, have been established to address these risks.
 - **Financial stability** –SQA may be unable to attract sufficient funding to support all planned activity. SQA is currently working to improve its business systems and practices as well as enhancing its business planning processes in order to align these with the long term vision for the business.
71. We will continue to monitor the actions taken by SQA to manage these risks.



Improving public sector efficiency

72. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provides a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.
73. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.
74. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
75. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below).



Extract from Audit Scotland report *Improving public sector efficiency*

In order to improve the delivery of efficiency savings public bodies should:

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

76. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.
77. SQA has a cash-releasing savings target for the Efficient Government Plan for the three years to 2010/11 of £1 million. The cumulative savings required to be delivered by SQA for 2009/10 was £0.7 million. Actual cumulative savings achieved over the period were £0.994m. These were to be achieved through savings on operational costs and are detailed in the table below (Exhibit 3). We will continue to monitor progress against efficiency targets during 2010/11.

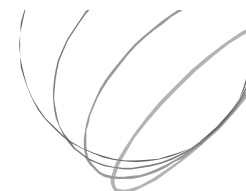
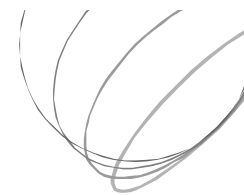


Exhibit 3: Actual Cumulative Efficiency Savings to 2009/10

	2009/10 £m
Reduction in use of external venues for meetings	0.301
Reduction in postage charges	0.157
Reduction in outsourced printing	0.123
Reduction in temporary staff required to support diet processes	0.106
Revised scripts carriage contract	0.086
Revised print room equipment contract	0.072
Reduction in staff expenses	0.066
Reduction in external provision of staff training (replaced by equivalent volume of in-house training)	0.059
Revised telephone contract	0.024
Total	0.994



Looking Forward

78. SQA faces a number of challenges in 2010/11, which include:

- **Efficiencies and future funding** - Scottish public bodies reported more efficiency savings than the Government's two per cent target in 2009/10, but there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with reduced future funding and increase savings fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. The challenge for SQA is to maximise income, prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Business development** – SQA has a vision to develop the organisation by maximising market share and income, refining existing business processes and structures whilst exploring new options of delivering services. At a time of economic uncertainty which makes predications about future growth difficult, the current fiscal outlook requires organisations (and stakeholders) to demand more outcomes from existing resources. Management capacity will be critical in ensuring that SQA is able to progress this programme of development whilst still being able to deliver existing services and programmes of work.
- **Curriculum for Excellence** – SQA have continued to communicate progress in delivering new qualifications for CfE and regular meetings take place with stakeholders and dependent entities. However the work for SQA will continue for a number of years to come. The challenge will be ensuring that existing partnership and governance arrangements remain robust and adequate resources are maintained to see the programme through to completion.
- **Best Value** - The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. SQA should continue to respond to this important initiative as it develops.