

Scottish Qualifications Authority

Annual report on the 2010/11 audit



Prepared for Scottish Qualifications Authority and the Auditor General for Scotland
January 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2010/11

In 2010/11 we looked at the key strategic and financial risks being faced by the 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

We have given an unqualified opinion on the financial statements of SQA for 2010/11. 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.

During 2010/11, SQA managed its resources to deliver its functions within available funding of £19.363 million. The resources used during the year were net revenue costs of £12.809 million (£16.705 million 2009/10) and capital costs of £1.189 million. The reduction in net revenue costs has mainly been achieved through movements in the pension liability for 2010/11 which reduced the overall cost of staff as well as a managed reduction in other operating expenditure. On a cash basis, net cash outflows from operating and investing activities matched the available Scottish Government funding of £19.363 million.

SQA faces significant challenges in managing its future financial position as cost pressures in key areas become more difficult to manage particularly with reduced funding settlements. Some of the actions taken to address the financial challenges include the review of expenditure budgets and spending priorities, expansion of commercial activities and a reduction of staff through a voluntary early release scheme. At the same time, key investments have been made in technology and property to support the operational business environment and ensure that services reflect the needs and expectations of customers.

Whilst the performance levels attained during the year indicate that overall SQA is sustaining or improving performance in most indicators, there are a number of significant challenges facing SQA in the future. SQA continues to respond to these challenges and refine its business model and strategies to address some of these issues.

Outlook

SQA anticipates a difficult financial environment in the years ahead with expected year on year reductions in Grant in Aid settlements. Ensuring that the SQA business model is fit for purpose in the short to medium term will be a priority for management.

There are many different elements affecting SQA's core business and commercial activities. SQA has commenced much of the work that it needs to do to address the challenges these present. Overall the forthcoming years will be a very challenging period for the operation of SQA as it faces a period of financial change and prioritisation of its strategic objectives.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of the Scottish Qualifications Authority (SQA). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of governance.
3. This report is addressed to SQA and the Auditor General and should form a key part of discussions with audit committees, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
4. This report will be published on our website after consideration by SQA.
5. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income (except for local government bodies).
8. Auditors review and report on, as appropriate, other information published with the financial statements, including the management commentary, statement on internal control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

9. We have given an unqualified opinion that the financial statements of SQA for 2010/11 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.
10. SQA is required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.

Regularity

11. In accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000, we have also provided an opinion, that in all material respects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Remuneration report and statement on internal control

12. In our opinion, the audited part of the remuneration report has been properly prepared and the remaining elements of the remuneration report and management commentary are consistent with the financial statements.
13. We also confirm that we have no issues to report to you on the statement of internal control and its compliance with Scottish Government guidance.

Accounting issues

Accounts submission

14. The financial statements were submitted for audit on 6 June, in accordance with a pre-agreed timetable. The audit fieldwork was completed on 20 June and matters arising from this work were reported to the Financial Accounting Manager on 24 June.

Presentational and monetary adjustments to the unaudited accounts

15. A number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the FReM. There were also some monetary changes identified arising from adjustments to the valuation of current assets held for sale and pension costs. Net Expenditure after interest changed from £11.767m to £12.809m and Total Taxpayers Equity changed from £13.092m to £12.050m. The audited financial statements have been adjusted to reflect these issues.

Post Balance Sheet Event

16. SQA are in the process of selling their existing property at Ironmills Road, Dalkeith. During the year the assets were correctly transferred from Non-Current Assets to a separate current asset class: Assets held for Sale. The open market value of the building and land was determined by the Selling Agent to be equivalent to the carrying value of the assets and was included in the accounts at £2.263m. Two bids were received by the closing date of 17 May 2011, both significantly lower than the £2m asking price and with conditions attached to sale. The agents and legal teams were instructed to commence negotiations with the higher bidder.
17. IAS 10 prescribes when financial statements of an entity should be adjusted for events after the balance sheet date. Normally this type of event would result in an adjusting post balance sheet event, requiring the accounts to be restated. However, the information available at the time of audit indicates that significant uncertainty existed over the final selling price of the assets. Accordingly we recommended that SQA should make a non-adjusting post balance sheet event disclosure in the accounts. In addition, we also recommended that the situation should be reviewed just prior to the signing of the accounts in order to assess the available evidence at that time which may provide a stronger basis for estimating the fair value of the assets. If sufficient certainty exists at that future date about the expected selling price, consideration should be given to restating the accounts.
18. Following a review of situation in September 2011, the financial statements were adjusted to reflect the minimum guaranteed sale price of £0.850m, resulting in a charge of £1.413 million to the Statement of Comprehensive Net Expenditure. Appropriate disclosure has been included in the notes to the accounts, explaining the action taken.

Whole of government accounts/ consolidation packs

19. The whole of government accounts (WGA) is the consolidated financial statements for all branches of government in the UK. Most central government bodies including SQA are required to provide information to their auditors, by 29 July. SQA submitted a consolidation pack on 28 July 2011. However due to an adjustment to the 2010/11 financial statements, arising from the reassessment of a post balance sheet event, SQA did not sign off the WGA balance sheet until January 2012.

Outlook

20. The main change in the financial reporting framework (FReM) next year (2011/12) is that grants and donated assets should be recognised immediately, unless there is a condition that the recipient had not satisfied that would lead to repayment. Most grants and donated assets should be recognised as income, but grants from a sponsoring department to an NDPB should be credited to general reserves. As a consequence, the government grant reserve and donated asset reserve will no longer exist.
21. Looking further ahead, from 1 January 2013 changes to international financial reporting standards (IFRSs) will become effective. This includes the introduction of:
- IFRS 9 - financial instruments (replacing IAS39)
 - IFRS 10 - consolidated financial statements (replacing IAS27)
 - IFRS11 - joint arrangements (replacing IAS31)
 - IFRS12 - disclosure of interest in other entities (replacing IFRS12)
 - IFRS 13 - fair value.
22. Revisions to the FReM for 2013/14 are included in the Financial Reporting Advisory Board (FRAB) forward work programme for 1 December 2011.

Audit appointment for 2011/12

23. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for SQA will be KPMG. As this is the last year of our audit appointment, we would like to acknowledge the good working relationship that existed during our current appointment term with SQA and thank officers and members of the board and committees for their assistance during the last five years. We have met with the incoming external auditors, KPMG, as part of a managed changeover process.

Financial position

24. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
25. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
26. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results 2010/11

27. During 2010/11, SQA managed its resources to deliver its functions within available funding of £19.363 million. The resources used during the year were net revenue costs of £12.809 million (£16.705 million 2009/10) and capital costs of £1.726 million. The reduction in net revenue costs has mainly been achieved through movements in the pension liability for 2010/11 which reduced the overall cost of staff as well as a managed reduction in other operating expenditure. On a cash basis, net cash outflows from operating and investing activities matched the available Scottish Government funding of £19.363 million.

Budgetary control

28. A strong system of monitoring the budgetary position was in place during the course of the year linking business unit income and expenditure to local objectives and corporate goals. Devolved budgets were monitored on a regular basis by the organisation's finance team, with reports being prepared and submitted to the Executive Management Team and Board for consideration. The senior management team undertake a challenge process on the allocation of budgets to rationalise the use of available funds and ensure that they were directed to the areas of highest priority. These actions all contributed to the final outturn position.
29. Financial plans set for the year included a number of anticipated efficiency savings derived from the managerial review highlighted above. A process of regular monitoring and review ensured that expenditure was tightly controlled and within approved budgetary levels.

Financial position at 31 March 2011

30. The Statement of Comprehensive Net Expenditure records net expenditure after interest of £12.809m, a reduction of £3.896m compared to the total net expenditure incurred in 2009/10 of £16.705m. A summary of the main movements are provided in Exhibit 1 and discussed below.

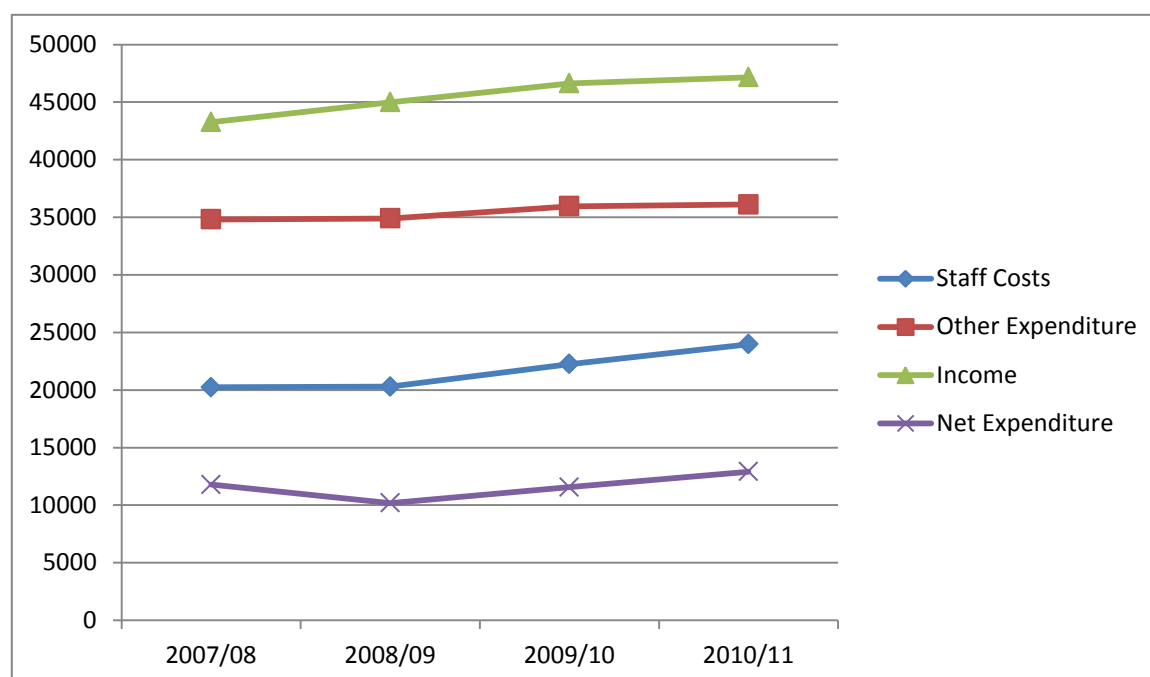
Exhibit 1: Movement in financial position 2009/10 to 2010/11

Net Expenditure: 2009/10	£16.7
Movement in Pension liability recognised in Net Expenditure Account	£ (6.5)
Increase in staff salaries and related cost for year ended 2010/11	£2.5
Movement in other expenditure 2010/11	£ (0.2)
Year on year movement in Interest Payable: attributable to pensions	£ (0.6)
Increase in income received in 2010/11	£ (0.5)
Net loss on revaluation of assets held for sale	£1.4
Net Expenditure after interest: 2010/11	£12.8

Source: SQA Annual Report and Accounts 2010/11

31. Total Staff costs decreased by £4m between 2009/10 (£24.545m) and 2010/11 (£20.537m). A £6.5m reduction in pension liabilities was off-set by an underlying increase in staff salaries of £2.5m reflecting an increase in the average size of the workforce during the year and payment of £0.8m in one off severance costs paid in year as part of an early voluntary release scheme.
32. Income increased by £0.5m from £46.635m to £47.164m. Entry fee income increased by £1.0m compared with previous years, however this was off-set by reduced income from EU funding (-£0.14m) and other income (-£0.4m).
33. SQA faces a number of cost pressures within its current budget as illustrated in Chart 1. In particular, expenditure on Salaries (excluding pensions and one off severance payments) and Other Expenditure (excluding depreciation charges) both show an upward trend. This expenditure includes activities specifically funded by Scottish Government over and above Grant in Aid funding, which is excluded from the income trend in Chart 1. Increases in expenditure may reflect increased activity within SQA. A similar upward trend in income would suggest that activity is resulting in increased income. However income levels are subject to many external influences outwith SQA's control (e.g. population demographic) and may not directly reflect trends in expenditure. The challenge for management is to manage costs in line with expected income and deliver a balanced budget. This task is made more difficult at a time of reducing Government funding.

Chart 1: Trends in underlying cost base



Source: SQA Annual Report and accounts: 2007/08 to 2010/11

34. The positive net position within the Statement of Financial Position (£12.050m) has improved significantly since 2009/10 when SQA had an overall deficit position (-£3.106m). The improvement has arisen mainly as a result of movement in the pension liabilities (net gain of £8.575m).
35. Total assets remain relatively stable (£25.104m) with a small decrease of £0.390m since 2009/10 (£25.494m). The most significant movement was the transfer of £2.263m from non current assets to current assets, representing the value of the Dalkeith property which was transferred to a separate "held for sale" asset class within Current Assets ahead of its forthcoming disposal, expected in 2011/12. The value was subsequently revised to £0.850m (see paragraphs 17-19), resulting in a charge to the Statement of comprehensive Net Expenditure of £1.413m.
36. Overall Trade and Other Receivables have increased from £15.895m in 2009/10 to £16.366m in 2010/11. However the actual debt owed to SQA arising from trading activities reduced by £0.662m from £3.664m in 2009/10 to £3.002m in 2010/11 reflecting improved debt collection processes and customer engagement. The slight increase is attributable to the recognition of £0.215m within Other Receivables due from SQA's investment in Awards UK, plus an increase of £0.641m in prepayments and accrued income.
37. Trade and Other Payables decreased slightly by £0.5m to £10.588m in 2010/11 (£11.121 in 2009/10). Within this account area a significant decrease was noted in trade payables, down £1.3m. This is off-set by an increase of £0.7m in accrued expenditure arising from timing differences between receipt of goods and services and the supplier's invoice.

Capital investment and performance 2010/11

38. A capital allocation of £0.698m was received from the Scottish government as part of the Grant in Aid allocation for 2010/11 which was fully utilised by SQA during the course of the year.
39. SQA approved a capital programme for 2010/11 which aimed to support a number of areas across its business activities and facilitate the longer term future development plans of the organisation. Included in the programme were a number of ICT projects used to support key business activities (£0.394m), demonstrating a continued commitment by SQA to investing in and improving its information technology base. Additional expenditure of £0.663m was allocated to support the development of Curriculum for Excellence. There was also a small amount of initial capital spend (£0.036m) on the new Shawfair Park building.

Financial planning to support priority setting and cost reductions

40. SQA faces a challenging operating environment with changes to the demographic profile of the recipients of their awards, increased competition from other Awarding bodies, fluctuations in the economic markets, together with a diversification in their activities into international markets in support of wider Scottish Government policy objectives. This is set against a public sector environment where reductions in funding are forecast, changes in service delivery through collaborative working and sharing of services are prioritised on the Government's agenda along with an expectation that the quality of services will be maintained, if not improved. SQA have taken a number of actions to address these issues.

Asset management

41. SQA has made significant investment in information technology to support key business activities and derive improvements and efficiencies in work processes. The enhancement of IT is also improving engagement with customers, increasing accessibility for candidates and centres to SQA services through a new portal access.
42. The new building development at Shawfair Park, Midlothian to replace the existing building at Dalkeith will also bring increased efficiencies and improvements to the capabilities of SQA to meet the needs and expectations of stakeholders. The new premises will provide a modern facility to support the development of new working practices as well as derive efficiencies from energy savings and reduce the impact of business activities on the environment.

Procurement

43. Improvements to the Procurement strategy adopted by SQA have driven a number of efficiencies in reducing expenditure. Greater use has been made of the purchase order processing system which ensures the placement of orders are made with approved suppliers. This process also streamlines the authorisation process of suppliers' invoices, thereby improving the time taken by SQA to pay its suppliers. SQA also participates in the Buying Solutions Framework, the national Government procurement portal for the public sector aimed at ensuring financial efficiencies through bulk purchasing.

Workforce reduction

44. In 2010/11, SQA approved the release of 38 staff under a Voluntary Early Release Scheme at a cost of £0.8m. This represents about 5% of the permanent staffing establishment and aims to reduce staff costs in forthcoming years as part of the financial planning strategy. The scheme was open to all staff and was conducted in consultation with the Partnership Group. The scheme was subject to a robust and transparent assessment process and approval was based on criteria established in individual business cases. All staff had left by the year end.

Trading Subsidiary

45. SQA's Strategy for Growth sets out their proposals for business development across all of their key markets up to the year 2020. The establishment of a trading subsidiary is part of this strategy. Following submission of a revised business case to Scottish Government, Ministers formally approved the establishment of a trading subsidiary, during 2010, actions of which will be limited to carrying out international commercial activity. The subsidiary has been registered with Companies House as SQA Solas Ltd and work is now underway in developing detailed project plans to support its activities.

Outlook

2011/12 budget

46. For 2011/12, Grant in Aid support for SQA is being reduced by £3.1 million. The SQA budget for 2011/12 also includes some very challenging assumptions; for example, the income assumption from fees in England & Wales had been increased from £200,000 in 2010/11 to £1.3 million in 2011/12.
47. Quarterly performance meetings are currently being held with Scottish Government to review and track SQA's performance and progress to achieve the agreed budget. SQA also continue to evaluate the funding gap and identify means to secure income targets. Actual financial performance during 2011/12 suggests that the anticipated funding gap of £1.3 million identified at the start of the year will be significantly less than expected. This has been achieved through the management of costs.

Financial forecasts beyond 2011/12

48. SQA anticipates a difficult financial environment in the years ahead with the expectation that the Grant in Aid settlement will reduce from 2012/13. It is noted that SQA have presented a balanced budget, as agreed by the Board, to the Scottish Government for 2012/13.
49. SQA income mainly arises from entry charges however the majority of the SQA qualifications are loss making and in previous years the shortfall has been funded through Grant in Aid. SQA continues to hold meetings with the Scottish Government to consider solutions to these financial challenges.

Governance and accountability

50. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
51. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
52. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
53. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

54. SQA has maintained appropriate arrangements for the oversight and scrutiny of the main business areas of the organisation during the year. This is conducted through a series of formal committees chaired by an appointed member of the Board. These committees meet regularly throughout the year to review progress in each area and provide challenge and scrutiny to the process by holding officers to account.
55. In addition, SQA has a range of policies and procedures which govern its activities and behaviours to ensure that it complies with best practice. A review of these policies is conducted each year as part of the activities supporting the review of systems of internal control which forms part of the annual financial statements process.

Internal control

56. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

57. As part of our audit we reviewed the governance structures and processes relating to the staff costs, the operation of the general ledger, cash and banking processes and the payment of suppliers. Our work did not identify any significant control weaknesses in the systems of internal control.
58. Internal Audit forms an important component in the overall internal control system providing an independent assurance to management on the effectiveness of governance processes. In 2010/11 the internal audit function was performed by PricewaterhouseCoopers, together with an in-house Internal Audit Team. We assess the adequacy of the internal audit function within SQA each year and found the service provided by PricewaterhouseCoopers to be compliant with the Government Internal Audit Manual. This allowed us to work effectively with internal audit to reduce the level of duplication in our work and focus audit resources to the areas of highest risk. Specifically during the year we were able to rely upon a number of aspects of PricewaterhouseCoopers' work of including their review of key financial systems.

ICT data handling and security

59. In 2010/11 SQA did not report any personal data incidents.
60. During the course of the year, additional measures were initiated to strengthen existing processes for the collection, handling and storage of data. SQA established a central Information Management team with the specific role of developing information policies and also started to roll out an Electronic Content Management System to enhance the security exercised over the use of information and data held by SQA.

Prevention and detection of fraud and irregularities

61. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
62. 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. These are supported by a fraud prevention policy and response plan. We are not aware of any reportable incidents during the year.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

63. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in SQA are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

64. Recent developments, for example the establishment of the Trading Subsidiary, indicate that the business of SQA is continually evolving and diversifying into new market places. In addition, the organisation is striving for efficiency in business processes to develop responsive and quality services to its customers as well as achieve financial savings. We welcome the proposed change of emphasis in the work of internal audit within SQA and its new focus on business improvement and enhancement of internal control. As the business model and organisational structure adapts to future developments, appropriate consideration will require to be given to the governance processes required to provide proper oversight of all activities.

Best Value, use of resources and performance

65. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. .
66. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.]
67. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
68. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
69. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
70. This section includes a commentary on the Best Value/ performance management arrangements within SQA. We also note any headline performance outcomes/ measures used by SQA and any comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

71. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
72. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

73. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
- vision and leadership
 - effective partnership
 - governance and accountability
 - use of resources
 - performance management
 - equality (cross-cutting)
 - sustainability (cross-cutting).
74. SQA endeavours to implement best value into its operational and corporate activities when reviewing policies and procedures and securing value for money from procurement activities in support of these objectives. A network of Continuous Improvement Champions co-ordinate and facilitate the roll-out of activities across the business units in support of these objectives. In the current year the structure of the Corporate Programme Office has been revised to aid this process.

Performance management

75. The 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 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.
 - 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.
 - Enhance the role of qualifications and services in recognising the skills of individuals across the education and training system.
 - Subject to demand and statutory requirement, accredit and assure quality of qualifications, 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 leading public body.
 - 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.
76. SQA has an established performance management reporting framework which incorporates a number of performance indicators and / or categories (e.g. traffic light system) in support of

each corporate objective. This framework has continued to evolve during the year to provide a co-ordinated overview of all SQA activities and is used by the Executive Management Team and the Board to monitor progress in each business area. Detailed reports are regularly received by the Executive Management team and a quarterly summary report is submitted to the Audit Committee. This process allows board members to scrutinise the actual performance and hold officers to account.

Stakeholder / User engagement

77. Over the year SQA has continued to work in partnership with training providers and engage with customers and stakeholders to ensure that SQA is meeting their needs and expectations in the delivery of quality services. SQA regularly reviews the results of its Stakeholder Tracking Survey which continues to provide positive messages on the perception of SQA amongst stakeholders.
78. During 2010/11 SQA has also undertaken specific activities to ensure that its services are meeting the needs and expectations of its customers and stakeholders, including:
- an engagement exercise with training providers in the College sector which is helping to develop a programme of quality assurance
 - the roll out of SQA Connect in September 2010 which offers an on-line portal for approved centres and other organisations to access a range of services and materials
 - a review of its complaint handling procedures completed during the year which ensured that these processes were proportionate and responsive to the needs of customers.

Overview of performance in 2010/11

79. Some of the measures of performance achieved in 2010/11 include:
- The actual number of national qualification awards in development (41) exceeded the target of 35.
 - 95% of assessment support materials were produced in accordance with agreed timescales.
 - All performance measures for the 2010 diet of certification were achieved.
 - Financial efficiency target of £1m was exceeded by £0.3m (+30%).
 - Performance targets aimed at reducing carbon emissions were not achieved in the current year (partly due to extreme winter conditions experienced in 2010/11).
80. Whilst the performance levels attained during the year indicate that overall SQA is sustaining or improving performance in most indicators, there are a number of significant challenges facing SQA in the future. Changes in projected population demographics, economic pressures on businesses, reduced future public sector funding and competition from other Awarding Bodies all contribute to a difficult operating environment. SQA continues to respond to these challenges and refine its business model and strategies to address some of these issues.

National performance reports

81. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are set out in Exhibit 2.

Exhibit 2: A selection of National performance reports 2010/11

- | | |
|---|--|
| <ul style="list-style-type: none">• Improving energy efficiency: a follow-up report• Scotland's public finances: responding to the challenges• The role of boards | <ul style="list-style-type: none">• Role of boards: a summary for non-executive board members• The cost of public sector pensions in Scotland |
|---|--|

Source: www.audit-scotland.gov.uk

The Role of Boards

82. This report examined the accountability arrangements of boards to the Scottish Government and considered how Boards operate, including the knowledge and expertise of board members.
83. The report identified a number of key findings:
- The make-up of boards and their role has evolved over time rather than as a result of any objective evaluation of the best model for public accountability.
 - In addition to giving leadership and strategic direction, a very important role for boards is the scrutiny of risk, financial management and performance.
 - The overall number of people applying to be non-executives is falling. The length of time it can take to make an appointment remains too long and there has been mixed progress in widening the diversity of applicants to become non-executives.
84. The report made some recommendations for the Scottish Government and Public Bodies, including:
- the need to review the skills and expertise that they need among non-executives for the future and seek to attract applicants to fill any gaps identified
 - ensure that their boards focus their scrutiny on organisational performance, financial management and risk management
 - review the use of committees and ensure that major decisions which should be made by the board are not delegated.
85. SQA noted the findings and recommendations made in this report. SQA did not formally assess how far the recommendations in the report applied to the corporate governance arrangements within the organisation. However SQA monitors its corporate governance arrangements periodically and over the years improvements in these arrangements have been

noted. We would draw attention to a recent change to the Scottish Public Finance manual (SPFM) in May 2011, which formally requires Accountable Officers to consider a proportionate response to relevant national reports.

Outlook

86. Expected reductions in financial settlements in the coming years will reduce the level of Grant in Aid available to SQA to deliver a balanced budget. There will be increased pressure on the organisation to increase income and / or reduce costs through its statutory and commercial activities. For an organisation like SQA, identifying greater financial efficiencies which do not impact on the level of overall service performance will become more difficult to achieve. The forthcoming years will be a very challenging period for the operation of SQA as it faces changes to its business model and strategic focus.

Appendix A: audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	11 February 2011	24 February 2011
Key financial controls assurance report	27 April 2011	12 May 2011
Report on financial statements to those charged with governance	7 July 2011	27 July 2011
Audit opinion on the 2010/11 financial statements	7 July 2011	27 July 2011