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Scottish Qualifications Authority

Annual audit report to the Scottish Qualifications Authority
and the Auditor General for Scotland

Year ended 31 March 2012

17 August 2012



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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of the Scottish Qualifications Authority and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

We also draw your attention to the following:

- management of Scottish Qualifications Authority 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 us are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist; and
- communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve Scottish Qualifications Authority management from its responsibility to address the issues raised and to maintain an adequate system of control.

SQA is the national body in Scotland for the development, accreditation, validation, assessment and certification of qualifications (other than degrees and some professional qualifications). Its main functions are set out in the Education (Scotland) Act 1996. SQA is a non-departmental public body, sponsored by the Scottish Government's learning directorate.

We have completed our audit for 2011-12 and have issued unqualified audit opinions on the financial statements and the regularity of transactions included within those financial statements.

SQA has met its 2011-12 performance targets. Efficiency savings achieved exceeded the £1.3 million target by £120,000. These primarily relate to staff cost savings of £0.7 million, arising from the voluntary early release scheme. Total comprehensive expenditure for the year ended 31 March 2012 was £16.48 million. During 2011-12 the Scottish Government agreed for SQA to draw down an additional £750,000 of grant-in-aid to support working capital. As a result, at 31 March 2012, SQA had a cash balance of £830,000

SQA operates a demand-driven product development process, to ensure that all its qualifications and services remain relevant. Grant-in-aid is forecast to reduce by £0.3 million in 2012-13. SQA is required to generate surpluses, from its rest of the UK and international business, to invest in Scottish products and services.

As a result of the forecast reduction in grant-in-aid, demographic changes, and increased flexibility of awards under Curriculum for Excellence ("CfE"), SQA faces a number of financial and operational challenges. A 2012-13 balanced budget has been prepared. This assumes achievement of savings of £2 million. As at 30 April 2012, there was a budget variance of £767,000, however, this was mainly due to timing differences.

SQA income mainly arises from entry charges. Management has identified that the introduction of CfE and expansion in the rest of the UK and international activity will increase the complexity of income recognition practices.

A major focus of SQA is support of the CfE programme. SQA is working closely with the Scottish Government, Education Scotland, the Association of Directors of Education Scotland and schools and colleges to lead work on the development of new and revised qualifications, their assessment and quality assurance. The board's CfE programme review acknowledged that SQA's delivery of the project milestones is dependent on a number of partner organisations and actions have been developed to enhance stakeholder communication.

SQA has developed a strategy for growth which sets out proposals for business development across key markets up to 2020. A subsidiary, SQA Solas Ltd, has been registered with Companies House and work is now underway to develop detailed project plans to support its development. We confirmed with management that there were no transactions through the trading subsidiary in 2011-12.

The business of SQA is continually evolving and diversifying into new market places. In addition, the organisation is striving for efficiency in business processes. As the business model and organisational structure adapts to future developments, appropriate consideration will require to be given to the governance processes required to continue to provide oversight of the diversity of activities. In addition, given the challenging environment in which SQA operates, it is important to ensure it is well placed to respond to future opportunities and challenges, through the implementation of new processes and planned investment in information technology.

An external code of practice has been developed which outlines SQA's role as an awarding body, while protecting and raising its reputation.

During 2011-12 we performed follow-up work in relation to the Audit Scotland national report: *Role of Boards* as well as preparing returns on national studies. Our work has found that SQA's arrangements are generally strong in both areas.



Executive summary Headlines

Our audit work is undertaken in accordance with Audit Scotland's Code of Audit Practise ("the Code"). This specifies a number of objectives for our audit.

We reported, in our audit strategy, our responsibilities in respect of the audit. SQA's responsibilities are set out in appendix three.

This report summarises our work for the year ended 31 March 2012.

We wish to record our appreciation of the continued co-operation and assistance extended to us by SQA staff during the course of our work.

Financial statements	
Draft financial statements were provided on 14 May 2012, in line with the agreed timetable. These were primarily complete, with the exception of the remuneration report, the exit costs and the pension cost note, which were provided at different points during the audit. The draft financial statements were of a good standard.	-
We have issued unqualified audit opinions on the 2011-12 financial statements and the regularity of transactions reflected in those financial statements.	
Use of resources	
SQA met its financial targets through effective financial planning and management throughout the year.	Page 4
Total comprehensive expenditure for 2011-12 of £16.48 million was recognised; this was in line with the budget set. On a cash basis, net cash outflows from operating and investing activities were £19.78 million which was £830,000 less than the available Scottish Government funding of £20.6 million. The cash balance held at year end is in line with the agreement made with the Scottish Government in April 2012 which allowed SQA to draw down £750,000 to support their working capital position.	Page 5
The 2012-13 budget forecasts a breakeven position. This assumes achievement of savings of £2 million.	Page 7
Performance management	
We performed follow up work on Audit Scotland's national report on <i>Role of Boards</i> , (published September 2010). We found that management's arrangements in respect of the board's operation and performance were above average based on our experience at other bodies.	Page 13
We have considered SQA's response to the national report <i>Scotland's public finances: responding to the challenge</i> and have prepared a short return to Audit Scotland which confirms that management has appropriately considered the report's findings and recommendations.	
Governance	
SQA maintains an integrated governance framework to provide an appropriate structure for maintaining decision-making, accountability, control and behaviour. Although there has been no change in the overall governance framework, there has been a number of changes in board composition during the year.	Page 15
Arrangements to prevent and detect fraud are embedded in internal controls, in particular this includes a fraud prevention policy and response plan.	Page 15
Internal audit completed their plan and reported that "in our opinion SQA has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives and key risks. Proper arrangements are in place, in the areas we have reviewed, to promote value for money, deliver best value and secure regularity and propriety in the administration and operation of the organisation."	Page 16
The internal auditors did not raise any 'critical risk' recommendations during the year.	

SQA has met its 2011-12 performance targets. Efficiency savings exceeded the £1.3 million target.

Performance targets

SQA's corporate plan 2011-14 set the organisation's strategic direction for the next three years. It includes eight strategic goals, covering both SQA's accreditation and awarding functions and is aligned to the Scottish Government's national outcomes.

SQA's goals for 2011-14 and progress in 2011-12 is summarised below:

- *Develop, deliver and maintain a portfolio of qualifications and services to support the needs and aspirations of Scotland, its people and its economy.*

SQA is developing courses and awards to support delivery of CfE. A key aspect of SQA's approach has been close partnership and stakeholder working. One of SQA's primary responsibilities is the certification of national qualifications ("NQ") for candidates in schools and colleges across Scotland.

SQA met its performance targets for certification of NQ qualifications, agreed with the Scottish Government in 2011-12.

- *Be regarded as a leader in assessment and quality enhancement of learning, in Scotland, and recognised worldwide.*

SQA has continued to develop quality assessment methods, including those implemented to support new qualifications. This will continue to be important as further new courses and qualifications are developed.

- *Enhance the role of qualifications and services in recognising the skills of individuals across the education and training system.*

SQA utilises a skills framework to inform the development of new qualifications to ensure they meet stakeholders' needs.

- *Ensure SQA activities support the Scottish Government's agenda to maximise the benefits to Scotland of international engagement.*

During 2011-12, a number of international links have been developed and SQA continues to promote Scottish qualifications both at home and abroad.

- *Subject to demand and statutory requirement, accredit and assure quality of qualifications delivered in Scotland, other than those conferred by higher education institutions.*

In 2011-12, SQA accreditation developed a set of regulatory principles which were approved by the accreditation committee for implementation from 1 April 2012. They are designed to allow awarding bodies more flexibility in course design while maintaining quality.

- *Ensure high quality, continually improving, efficient and responsive service delivery.*

SQA developed business continuity arrangements, stakeholder relations and staff and appointee development arrangements during 2011-12.

- *Continue to develop SQA as a leading public body.*

SQA published its first annual sustainability report in 2011-12 and continues to work with local communities to be a recognised, 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.*

SQA continues to focus on diversifying income to meet future financial challenges and support investment in Scottish qualifications.

Efficiency Savings

Efficiency savings of £1.44 million were achieved, exceeding the original budget by £120,000. This is analysed in the table below.

Efficiency savings to 31 March 2012	Actual Savings £'000	Original saving target £'000	Variance £'000
Staff costs	805	918	(113)
Appointee costs	286	146	140
Assessment materials	31	13	18
Contracted out	83	20	63
External venues	90	0	90
IT costs	147	221	(74)
Other	2	6	(4)
Other operating costs	353	260	93
Total	1,444	1,324	120

Source: SQA management information

- Savings in respect of staff costs were mainly achieved as a result of the voluntary early release scheme, together with close management of expenses and efficiencies related to participation in shared services.
- By merging group meetings and closely monitoring venue costs and hire, appointee costs were reduced.
- Efficiencies in respect of other operating costs were achieved as a result of removing catering from internal meetings and training courses, management of external venues and replacement of IT servers which cost less to maintain.

Total comprehensive expenditure for the year ended 31 March 2012 was £16.48 million.

A year end cash balance of £830,000 has been retained to support working capital balances.

Financial targets

SQA exceeded its financial target for the year: to achieve a break even position. Total comprehensive expenditure for the year ended 31 March 2012 was £16.48 million (£12.809 million 2010-11).

During 2011-12, SQA received £22.148 million grant-in-aid from the Scottish Government (including notional funding of £1.538 million; received in respect of the annual rent of the Optima Building).

	2011-12 £'000	2010-11 £'000	Variance £'000
Staff costs	(27,417)	(20,537)	6,880
Depreciation and impairment	(1,646)	(2,329)	(683)
Other expenditure	(35,280)	(36,113)	(833)
Total expenditure	(64,343)	(58,979)	5,364
Entry charges	37,850	38,348	(498)
EU funding	786	547	239
Other income	8,276	8,269	7
Total income	46,912	47,164	(252)
Net expenditure	(17,431)	(11,815)	5,783
Finance income	951	419	532
Impairment assets held for sale	-	(1,413)	1,413
Total comprehensive expenditure	(16,480)	(12,809)	(3,671)
Actuarial gain/(loss)	(7,098)	8,575	15,673
Unfunded benefits paid	15	15	-
Release of revaluation reserve	22	2,723	(2,701)
Total recognised income and expenditure	(23,541)	(1,496)	(22,045)
Grant funding received	22,148	19,363	2,785
	(1,393)	17,867	(19,260)

Source: SQA financial statements 2011-12

The increase in total recognised expenditure compared to 2010-11 is shown in the following table.

Movement in the financial position 2010-11 to 2011-12	£'000
Total comprehensive expenditure 2010-11	12,809
Movement in pension liability recognised in net expenditure	7,653
Decrease in severance and compensation costs	(643)
Decrease in other staff and related costs	(130)
Decrease in depreciation charges	(683)
Decrease in other expenditure	(833)
Increase in interest receivable	(532)
Decrease in income received	252
Impairment of assets held for sale	(1,413)
Total comprehensive expenditure 2011-12	16,480

Source: SQA management information

On a cash basis, outflows from operating and investing activities were £19.78 million which was £830,000 less than the available Scottish Government funding of £20.61 million (excluding notional funding for £1.538 million). In April 2012, the Scottish Government gave SQA permission to draw down £750,000 of underspent 2011-12 grant-in-aid to support working capital balances.

Financial position

The original 2011-12 budget forecast a breakeven position and assumed identification of £1.3 million of additional income and cost reductions. As at 31 January 2012 a surplus of £1.144 million was forecast, as indicated in our interim management report. The year end management accounts forecast a full year surplus of £668,000, an adverse variance of £476,000 compared with the quarter three forecast.

The movement in the financial position from a budgeted breakeven position to a forecast surplus is due to the generation of additional income, cost management and efficiency savings.

Forecast outturn for the year ending 31 March 2012		£'000
Surplus forecast as at 31 January 2012		1,144
Entry charges		161
Government funding		(184)
Other income		(38)
Staff costs		50
Appointee costs		112
Other operating costs		375
Programme grant funding		(952)
Surplus forecast as at 31 March 2012		668

Source: SQA financial position (Draft corporate financial report at 31 March 2012)

Management do not complete a reconciliation between the surplus reported in the year end management accounts and the position reported in the draft financial statements. It is recommended that, going forward, management perform a reconciliation which will ensure members understand the differences between the forecast outturn and surplus reported within the annual financial statements.

Recommendation one

The main variances between the surplus forecast as at 31 January 2012 and 31 March 2012 include £790,000 additional programme grant funding, approved in respect of changes to SQA's role in CfE, but which was not utilised.

Government funding was reduced as costs associated with the voluntary early release scheme were lower than anticipated following some withdrawals of interest. There was also £103,000 less grant funding received in respect of European Social Fund projects due to delays in project completion.

This adverse variance was off set by savings made in a number of areas including staff and appointee costs, other operating costs and the generation of additional income from entry charges.

SQA anticipates a difficult financial environment in the years ahead and the grant-in-aid settlement will reduce by a further £0.3 million in 2012-13. A balanced budget in respect of 2012-13 has been prepared, assuming savings of £2 million are achieved.

Financial plans for 2012-13

A breakeven budget has been approved for 2012-13. The budget has been prepared in line with the objectives set out in the corporate plan 2012-15 and requires further reductions in expenditure. In order to achieve the required expenditure reductions management has agreed the following savings plans:

	£'000
Managing staffing levels	500
Savings arising from voluntary severance (2011-12)	300
Reduction in capital investment	600
Reduction in operational cost budgets (5%)	600
Total savings	2,000

In addition, programme grant funding will be closely managed to secure the maximum contribution to the development of the business.

Entry charges relate to non-government income and are associated with delivery of qualifications, however the majority of the qualifications are loss making and, as in previous years, the shortfall in SQA's annual budget is funded through grant-in-aid. The 2012-13 budget assumes Scottish entry charge income will decline, offset by increases in rest of UK and international income. Grant-in-aid forecast in respect of 2012-13 is £5.1 million, a reduction of £0.3 million compared with 2011-12.

The strategy for growth continues to be implemented in order to address the decline in existing income streams; 2012-13 income generation targets have been established, investment in new contracts in 2012-13 will be targeted to generate additional income and SQA continues to hold meetings with the Scottish Government to consider ongoing financial challenges.

For the second consecutive year there will be no pay increases for staff earning more than £21,000. In addition, payment rates for appointee fees and expenses will not be increased, but additional costs are predicted due to increased activity. As at 30 April 2012, there was a budget variance of £767,000 surplus, mainly due to timing differences.

	2012-13 budget £'000	2011-12 budget £'000
Core income		
Entry charges	39,100	38,700
Other income	6,800	6,600
Grant-in-aid	5,000	5,300
SG funding – property rental costs	2,600	2,000
Additional income target	0	800
Capital grant release	1,000	700
Core expenditure		
Staff costs	(21,900)	(22,500)
Appointee costs	(16,500)	(15,900)
Operational costs	(11,700)	(12,200)
Property rental costs	(2,600)	(2,000)
Depreciation	(2,400)	(1,700)
Core deficit	(600)	(200)
Grant funding		
Programme grant funding	13,400	14,200
Other grant funding	300	1,500
Grant funded expenditure	(13,700)	(15,700)
Grant deficit	0.0	0.0
Total deficit	(600)	(200)
Non-cash expenditure	600	200
Surplus / (deficit)	0	0

Source: SQA management information



Financial statements Audit focus areas

Risks were identified around organisational objectives and strategy, financial management, organisational change and voluntary severance, remuneration report and changes to the Financial Reporting Framework; no audit adjustments were required and matters were concluded in a timely manner.

Issue	Key risk and implications	KPMG comment
<p>Organisational objectives and strategy</p>	<p>The draft corporate plan 2012-15 sets out SQA's strategic direction covering both accreditation and awarding functions and is informed by ministerial guidance on SQA's contribution to national objectives.</p> <p>In response to the challenging economic climate, competition in SQA's market and implementation of the Curriculum for Excellence, the corporate plan 2011-14 was revised to the corporate plan 2012-15, both of which are underpinned by a new strategy for growth 2011-2020.</p> <p>It is expected that SQA will see significant income growth from the rest of the UK and overseas in the future, as part of the overall strategy to become self-financing.</p>	<p>SQA has identified, and planned for, the future challenges associated with reduced public sector funding and has approved a strategy for growth 2011-2020. The strategy for growth is intended to enable SQA to proactively expand the market for its products and services.</p> <p>We obtained and reviewed the strategy for growth as part of our interim audit visit to further inform our understanding of SQA. We also met with the director of business development to understand growth plans and the range of SQA's operations.</p> <p>A risk register has been developed to identify and support the mitigation of the financial and non-financial risks associated with the strategy for growth.</p> <p>We reviewed the work performed by internal audit on Curriculum for Excellence. Internal audit reported that controls over the management of the delivery sub-programme of Curriculum for Excellence project were adequate and working effectively.</p> <p>There are plans for the board to participate in a presentation on SQA's IT strategy beyond 2014 and how this will align with future plans and objectives.</p>
<p>Financial management</p>	<p>SQA's 2011-12 budget includes a significant target for savings and additional income of £1.3 million, following reductions to the grant-in-aid received from the Scottish Government from £8.4 million to £5.3 million.</p> <p>A further reduction in grant-in-aid from £5.3 million in 2011-12 to £5.1 million in 2012-13 is planned.</p> <p>As at January 2012, the savings / income gap had been eliminated and the forecast outturn was a surplus of £1.1 million.</p>	<p>We have reviewed the budget setting and monitoring arrangements. The annual budget setting process is undertaken annually between September and December.</p> <p>In addition to the review of monthly management accounts, a quarterly performance review pack has been presented to the audit committee during 2011-12. It summarises key milestones and achievements, emerging risks and future actions. The pack provides detail on individual programme status and progress together with programme risk registers and performance reports. While much of the information may be readily available, a balance needs to be maintained to ensure the packs are useful and meet the evolving needs of management and non-executives together with the time required for their preparation.</p>

Issue	Key risk and implications	KPMG comment
<p>Organisational change and voluntary severance</p>	<p>A number of staff members transferred to SQA's new offices in Dalkeith and a voluntary early release scheme was advertised.</p> <p>Changes to staff structures and the organisation may have a significant impact on the operation of key controls.</p>	<p>In 2011-12 SQA approved the release of 17 staff under a voluntary early release scheme at a cost of £360,000. This represents approximately 2.5% of the permanent staff team and aims to reduce staff costs in forthcoming years as part of the financial planning strategy.</p> <p>The scheme was open to all staff and subject to a formal assessment process with approval based on criteria established in individual business cases. All staff had left by the year end.</p>
<p>Financial reporting framework</p>	<p>SQA prepares financial statements with regard to HM Treasury's Financial Reporting Manual ("FReM"). The 2011-12 FReM has a number of amendments from the 2010-11 version which management will need to consider for any impact on the reporting requirements and financial statements.</p>	<p>We discussed changes to the FReM with management. The main changes impacting the financial statements were:</p> <ul style="list-style-type: none"> ■ disclosure of median pay multiples in the remuneration report; ■ reference to the preparation of sustainability reports within the directors' report; and ■ the requirement for a governance statement, which replaces the statement of internal control. <p>During our final audit fieldwork we confirmed that these changes had been appropriately applied to the annual report and financial statements.</p> <p>The 2011-12 FReM adopted the recommendation requiring public sector organisations to disclose the top to median pay multiple within the remuneration report. SQA has included this information within its financial statements, reporting a multiple figure of 4.9 in 2011-12 (2010-11: 4.8).</p> <p>Following completion of the National Audit Office checklist and consideration of Audit Scotland's notes for guidance, we recommended some minor enhancements to financial statement disclosures.</p>

Issue	Key risk and implications	KPMG comment
<p>Income recognition</p>	<p>SQA income mainly arises from entry charges. Management has identified that the introduction of CfE and expansion in the rest of the UK and international activity will increase the complexity of income recognition practices.</p>	<p>In 2011-12 SQA's revenue comprised of four main elements: qualification entry income (56.2%), other SQA generated revenue (12.3%), grant-in-aid (revenue 4.2%; capital 5.4%), and Scottish Government grant funding for specific projects (20.98%). The recognition of entry charge income is complex due to the range of courses available.</p> <p>The academic year runs from August to July and SQA's financial year runs from April to March, therefore SQA's financial year spans the academic year.</p> <p>Income in respect of national qualifications is recognised based on the level of verification activity undertaken, while income from higher national and vocational qualifications is recognised over the average duration of courses.</p> <p>We have made recommendations to enhance the existing accounting policies.</p>



Other audit areas

Audit Scotland national reports

During 2011-12 we have performed follow-up work in relation to the Audit Scotland national report: *Role of Boards* as well as preparing returns on national studies.

Our work has found that the SQA's arrangements are generally strong.

Audit area	Overview	Findings
Local response to national studies	Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. To ensure that added value is secured through the role of Audit Scotland and its appointed auditors, auditors will continue to ensure that audited bodies respond appropriately to reports from Audit Scotland's programme of national performance audits.	We have considered SQA's response to the national report <i>Scotland's public finances: responding to the challenge</i> and have prepared a short return to Audit Scotland which confirms that management considered the report's findings and recommendations.
Role of Boards	As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified this report for follow-up in 2011-12. The aim of the follow-up work is to assess the progress that public bodies have made in seeking to improve the performance and operation of their boards. This will revolve around considering two key questions: <ul style="list-style-type: none">■ how effective is the board and is it seeking to continuously improve its performance and ways of operating?■ how is the board ensuring that it has the skills and expertise to enable it to perform effectively?	We have considered SQA's actions in respect of the Role of Boards report during our year end audit. We discussed the follow up work with the executive manager with responsibility for SQA's committees and received supporting documentation to gain an understanding of the progress that has been made in respect of the report's recommendations. A summary of our findings is included in appendix two.

Audit area	Overview	Findings
<p>Best Value</p>	<p>Audit Scotland has been committed to extending the Best Value audit regime across the whole public sector for some time now. Using the Scottish Executive's nine Best Value principles as a basis for audit activity, Audit Scotland previously selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working). A series of toolkits covering financial, performance and governance processes are available for public sector organisations and auditors to use.</p> <p>There is no mandatory requirement for toolkits to be applied in central government bodies in 2011-12. However, these are available to be used by management to self-assess arrangements, where considered relevant.</p>	<p>Management is committed to ensuring arrangements are in place which will lead to an economic, efficient and effective use of resources and aspects of arrangements to deliver Best Value are effectively embedded into policies and practices.</p> <p>SQA continues to embed a culture of efficiency, continuous improvement and Best Value across the organisation and in 2011-12 made efficiency savings that support the Scottish Government's efficiency agenda.</p> <p>In 2012-13 revised reporting arrangements will support management in more clearly focussing on the delivery of efficiency targets, and options to define and track non-cash releasing efficiency savings are currently being developed.</p>

Other audit areas

Performance management (continued)

Audit area	Overview	Findings
<p>Priorities and risks framework</p>	<p>We use Audit Scotland's <i>priorities and risk framework</i> to extend the scope of our audit to consider non-financial management arrangements, identifying best practice and areas for continuous development.</p>	<p>As part of the audit planning process we met with management to update our understanding of non-financial management arrangements and utilised the priorities and risks framework as appropriate.</p> <p>All business areas, projects and programmes have operational risk registers, which are actively monitored and reported on internally, these feed into the corporate risk register. During 2011–12 the SQA Corporate Risk Register identified the principal areas of risk for the organisation as relating to uncertainty around a sustainable funding model for the organisation and the criticality of SQA's role in working with partners to ensure successful delivery of the overall Curriculum for Excellence programme.</p> <p>Quarterly performance review packs have been developed which inform the audit committee and board's assessment of risk management and performance.</p>



Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.

<p>Corporate governance and internal control arrangements</p> <p>Standards of conduct and prevention and detection of corruption</p>	<p>SQA maintains an integrated governance framework to provide an appropriate structure for maintaining decision-making, accountability, control and behaviour. Although there has been no change in the overall governance framework, there have been a number of changes in board composition during the year.</p> <p>A portfolio board, made up of SQA directors was established in January 2011 to oversee major project activity underway within SQA to ensure continued alignment to SQA’s strategic goals and 2020 vision.</p> <p>An information governance and implementation project has been created to progress awareness training for staff regarding the management of confidential data.</p> <p>Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively. However, during our interim and final reviews, we noted minor weaknesses over accounts receivable and recommendations to address these matters have been agreed with management.</p>
<p>Governance statement</p>	<p>The governance statement provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness. It describes a number of sources of assurance for the accountable officer and identifies areas for improvements to be focussed in the future.</p> <p>We have reviewed the governance statement and have confirmed that it is in line with guidance and reflects our understanding of SQA.</p> <p>SQA met all the agreed 2011-12 performance targets for national qualification certification. Candidates were given the opportunity to receive results by e-mail and text. Although some text results were wrongly issued ahead of schedule, management has concluded that this neither advantaged nor disadvantaged candidates. An independent review was commissioned and actions to prevent a recurrence of the incident were reviewed by the audit committee and an action plan to address the recommendations is being implemented by management.</p>
<p>Sustainability report</p>	<p>The sustainability report provides details of environmental data, including performance commentary and targets and financial costs. We reviewed the sustainability report against treasury guidance and made a number of recommendations to enhance the report and ensure it is in line with the guidance.</p>
<p>Prevention and detection of fraud</p>	<p>Procedures and controls related to fraud are designed and implemented effectively. SQA has appropriate arrangements 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.</p> <p>No significant fraud or irregularities were identified during the year.</p>

Internal audit

As set out in our audit plan and strategy, we have evaluated the work of internal audit and concluded that we can rely, where appropriate, on their work. The content of the internal audit plan is in line with our expectations.

Internal audit has either finalised or drafted all of their planned reports for the year. We have reviewed internal audit's files and placed reliance on a number of reports, including those in respect of payments to appointees, financial planning, Curriculum for Excellence, accounts receivable and the reporting efficiencies review.

These reports do not make any 'critical' recommendations, but the financial planning report highlighted some 'high' risk control weaknesses over financial reporting and made recommendations which have now been addressed by management.

Internal audit reported that "in our opinion SQA has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives and key risks. Proper arrangements are in place, in the areas we have reviewed, to promote value for money, deliver best value and secure regularity and propriety in the administration and operation of the organisation."

SQA's in-house internal audit conducted a number of process audits in 2011-12; in particular those falling within the scope of existing certification to ISO standards. Audits conducted included: data management, corporate planning and risk management, information security and health and safety. No significant matters were identified.

Surveillance visits were conducted by Lloyd's Register Quality Assurance (LRQA) to monitor compliance with ISO/IEC 27001:2005 information security management systems (ISMS) requirements and ISO 9001:2008 quality management. The assessors reported some minor non-compliances which management are addressing.



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Appendices

The action plan summarises specific recommendations, together with related risks and management's responses.

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Financial reporting		Grade three
Management do not complete a reconciliation between the surplus reported in the year end management accounts and the position reported in the draft financial statements.	It is recommend that management perform a reconciliation which will support member's understanding of the differences between the forecast outturn and surplus reported in the financial statements.	Management agree that a reconciliation will be performed between forecast outturn and surplus reported in the financial statements from year ended 31 March 2013. Responsible officer: Director of Finance Implementation date: 31 March 2013

As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified the *Role of Boards* report for follow-up in 2011-12.

The aim of the follow-up work is to assess the progress that public bodies have made in seeking to improve the performance and operation of their boards.

How effective is the board and is it seeking to continuously improve its performance and ways of operating?

<p>Is the information that the board receives on (i) corporate performance, (ii) financial management and (iii) risk management sufficient to enable it to scrutinise the management of the organisation effectively and to hold it to account for its performance?</p>	<p>The board sets the strategic direction for SQA and is supported by a number of committees with specific remits. Responsibility for the scrutiny of corporate performance, financial management, and risk management is delegated to the audit committee. The main scrutiny in these areas is through the audit committee's review of a quarterly performance report ("QPR"), which contains a detailed review of the organisation's performance against the strategic goals identified within the corporate plan.</p> <p>The audit committee provides the board with an independent and objective review of financial systems and reporting. Additionally, the board receives financial reports at each of its meetings, which are discussed in association with management. The board also receives copies of the audit committee minutes, supported by verbal updates from the convenor of the audit committee.</p> <p>The board discusses risk as part of its strategic focus on an annual basis. In addition to the regular review on-going risks, any significant risks are reported to the board.</p>
<p>In the last 12 months, has the board sought changes that have improved the information that it receives from management on (i) corporate performance, (ii) financial management and (iii) risk management?</p> <p>What have these changes been and what effect have they had on the effectiveness of the board's scrutiny of these three areas?</p>	<p>Over the last 12 months the audit committee, in its delegated function, has actively engaged in the development of the information it receives each quarter. Members have requested changes to the format of the QPR, and further to their input, a management digest has been introduced. This digest provides an overview of performance.</p> <p>In May 2012, the audit committee reviewed external factors that may impact SQA's operations, once identified, these were incorporated into the corporate risk register.</p> <p>These improvements have increased members' understanding of SQA's business, its performance and the risks – both opportunities and threats – to the organisation's performance in delivering the objectives approved by the board.</p>
<p>Is the board open and accessible? Does it engage effectively with its stakeholders?</p> <p>In the last 12 months, has the board taken any steps to improve the openness of its meetings and the accessibility of its papers to the public and its stakeholders?</p> <p>How effectively is the board (as opposed to the management of the organisation) engaging with its key stakeholders?</p>	<p>The Scottish Government, as a main stakeholder, has an observer who regularly attends board meetings. Over the past 12 months, SQA has sought to increase this stakeholder engagement through the attendance of senior members of the Scottish Government – both Civil Servants and the Scottish Ministers – at board meetings, to facilitate detailed discussions.</p> <p>The advisory council was established by the Scottish Government, as a body independent from the board, to consider and provide advice to SQA and the Scottish Ministers on the needs and views of stakeholders. (Members are appointed by the Scottish Ministers under the terms of the Scottish Qualifications Act 2002, and they represent a broad range of stakeholders.</p> <p>An annual summary of the advisory council's work is presented to the board. In 2011-12 the advisory council considered certification, eAssessment, CfE engagement plans, review of the corporate plan 2012-15 and the UCAS tariff.</p> <p>SQA publishes its board minutes on its website, which are openly accessible to the public and stakeholders.</p>

Has the board undertaken an effective assessment of its performance and its way of operating in the last 12 months?

Did the assessment involve any external input or peer review to provide independence and challenge?

What were the main strengths in the board's performance?

Where were there areas for improvement in the board's performance?

Did the assessment include whether the board's committees were contributing effectively to its work?

Is the board planning further assessments on a regular basis?

Board members' views on the effectiveness of the board are sought through a questionnaire issued by the chairman. Members are asked to assess the contribution they have made to the board and make suggestions on how the operation of the board could be improved.

Committees of the board, regularly review their standing orders and any modifications are taken to the board for approval. This is next due to be carried out in October 2012. It was felt appropriate to undertake an assessment of the board effectiveness at the same time as this work.

How is the board of the public body ensuring that it has the skills and expertise to enable it to perform effectively?

Does the board have effective systems in place to ensure that it has the necessary skills and expertise to perform its functions?

Is there an effective system of induction training for new non-executive board members that covers both their role as board members and the nature of the organisation's work?

How does the board identify any gaps in its collective skills and expertise?

What (if any) gaps does the board consider it has in its collective skills and expertise?

Have the chair and all non-executive board members received a performance appraisal in last 12 months?

The composition of the board is constructed to ensure that there are appropriate skills and expertise to contribute to the broad policy and operational arena in which SQA operates. This is tracked by means of a skills matrix, which is used to identify any skills gaps as changes in board membership occur.

In deciding skills, the chairman reviews the skills mix prior to entering into the public appointments process with the Scottish Government.

The chairman undertakes annual appraisals with individual members of the board, and copies of these documents are sent to the Scottish Government.

Financial statements

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. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and

- participating, when required, in data matching exercises carried out by Audit Scotland.

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

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

Financial position

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.



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