

# Scottish Qualifications Authority

Report on the 2005-06 Audit

September 2006



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# Executive Summary

## Introduction

In 2005-06 we audited the financial statements of the Scottish Qualifications Authority (SQA) and looked at 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 2005-06.

At the planning stage we identified audit risks which informed our audit procedures. From our audit work we can conclude that these risks are being satisfactorily managed by SQA.

## Governance

SQA's corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control. We have also found the work of the internal audit service to be satisfactory and continue to place formal reliance on its work.

## Performance Management

During 2005-06 we completed a baseline Best Value analysis of SQA's management arrangements for achieving Best Value. We found that although SQA's procedures were under development, satisfactory progress was being made on developing arrangements to support the accountable officer's duty of best value.

We carried out an overview of SQA's management arrangements in relation to the requirements of the Scottish Executive's Efficient Government Initiative. SQA has agreed to absorb inflationary increases on its operational costs to 2007-08. SQA is developing its monitoring systems to demonstrate achievement against planned savings.

We are completing work on the performance management framework for the SQA; whether it provides an appropriate basis for monitoring performance and whether information is used effectively to encourage continuous improvement. The report is due for publication later in 2006.

I would like to record my thanks to management and staff for their co-operation and assistance.

Peter Tait CPFA, Assistant Director – 29 September 2006



# Introduction

## Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of SQA. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the Audit Committee on 28 February 2006. This plan described the work we planned to carry out on financial statements, governance and performance.
2. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all the weaknesses which may exist. It is the responsibility of management to determine the extent of the internal control system appropriate to SQA. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
3. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
4. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Council during the course of our appointment. This report will be submitted to the Auditor General for Scotland and will be published on our website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Outcome on Risks Identified in the Audit Risk Analysis and Plan

5. Up until 2004-05 the level of additional grant funding was increasing year on year and SQA was not demonstrating recovery towards being self-financing. For 2005-06 additional grant funding was £10.4m, a decrease of over £2m from the previous year [£12.7m 2004-05; £18m 2003/04]. This was due to increased entry charges and part of funding arrangements agreed with the Scottish Executive for 2005-06 (see paragraphs 13 and 25).
6. Six risks were identified at the audit planning stage. The outcome against planned activity is summarised at Appendix A. We can conclude from the results of our work on these risks that they are being satisfactorily managed by SQA and do not indicate areas of material concern.



## Prior Year Follow Up

7. One issue was identified in our Report on the Audit for the year from 1 April 2004 to 31 March 2005. SQA were to consider group accounts as the results of Awards UK were increasing and SQA were investigating setting up a trading subsidiary for their commercial and international work.
8. Group accounts were not prepared for SQA for 2005-06 as they are still in discussion with the Scottish Executive on establishing a trading subsidiary and the results of Awards UK are not material for consolidation. Group accounts should be considered for 2006-07, depending on progress with establishing the subsidiary.

**Action point 1**

## Management Action

9. Audit recommendations, together with management comments, on those areas where further improvements could be achieved are included in the action plan at Appendix B of this report.



# Financial Statements

## Our Responsibilities

10. We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Education (Scotland) Act 1996 and directions made thereunder by the Scottish Ministers, on the state of affairs of the Scottish Qualifications Authority as at 31 March 2006 and of its deficit, recognised gains and losses and cash flows for the year then ended;
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

11. We also review the Statement on Internal Control by considering compliance with Scottish Executive guidance and the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control. We also assess whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

## Overall Conclusion

12. We have given an unqualified opinion on the financial statements of SQA for 2005-06. We are able to conclude that the financial statements of SQA give a true and fair view of the financial position for the period from 1 April 2005 to 31 March 2006 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

## Financial Performance

13. SQA's income increased from £36m to £41m and operating expenditure increased from £50m to £52m. The increase in income is primarily due to above inflationary increases in entry charges from 1 August 2005; up to 12% for some entries. These increases were agreed with the Scottish Executive as part of SQA's plans to become self-financing. Expenditure increased due to increased staff numbers, property expenses, publications and events (e.g. 80 years of HN qualifications). The impact of increased entry charges was for additional revenue grant funding to reduce from £12.6m in 2004-05 to £10.6m in 2005-06.



14. The net asset position as at 31 March 2006 is £15.4m compared to £13.4m as at 31 March 2005. Tangible fixed assets increased by £4m, which relates to fit-out costs of the new premises. These are treated as construction in progress because SQA did not occupy the new Glasgow offices until after the financial year-end. SQA received capital grants for this work and this is included within deferred income. For 2006-07 onwards this will be released to the income and expenditure account to match the depreciation charged on the fixed assets.

## Pension Liabilities

15. Accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.
16. Note 1(8) to the accounts provides information on the accounting policy regarding pensions. All eligible employees are entitled to membership of the Strathclyde Pension Fund which is administered by Glasgow City Council. SQA's share of the Fund's assets and liabilities are disclosed at Note 23 to the accounts under the terms of Financial Reporting Standard 17 (Retirement Benefits).
17. Each year, the Fund commissions professional actuaries to produce the information which requires to be included in the financial statements in accordance with FRS17. During the audit of local government pension funds in late 2005, Audit Scotland became aware that some of the figures calculated by the actuaries were not estimated as expected and discussions were held with the actuary to resolve the matter.
18. SQA has restated the 2004-05 position for changes to the pension liability. The actuaries advised that a revised discount rate was being used which now followed the rates as recommended by the government actuary's department. Details of the restatement are given at Note 26. The result is that for 31 March 2005 an asset of £1.3m is shown compared to a previous liability of £8.9m and therefore represents a significant restatement.

## Statement on Internal Control

19. A draft Statement on Internal Control was presented to the Audit Committee on 11 May 2006 and signed by the Chief Executive on 28 September 2006. This set out the arrangements operated for risk identification and review, management of identified risks and assurance of effectiveness.





20. We are satisfied that the Statement complies with Scottish Executive guidance, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are consistent with the information emerging from our normal audit work. We note SQA's disclosures on further developments, demonstrating its commitment to continuous improvement.

## ISA 260: Communication of Audit Matters to Those Charged with Governance

21. My responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260. On 14 August I wrote to the Chief Executive setting out the matters arising from the audit of the financial statements. In line with normal practice, issues were discussed and resolved with staff during the course of the audit. Appendix C summarises the position.

## Issues Arising

22. We would like to draw attention to the following issue arising from our audit of the financial statements:

### *Format of the account*

- SQA is a non departmental public body and also a registered charity. NDPBs would normally follow the Financial Reporting Manual (FReM) introduced in 2005-06 and which includes a Remuneration Report and Management Commentary. In line with requirements of the FReM, charities follow the Statement of Recommended Practice (SORP) *Accounting by Charities* and SQA's Annual Report and Accounts follow these requirements. The FReM comments that bodies should also follow the principles in the Manual and provide the additional disclosures required by the Manual (for example, notional costs and disclosure on salary and pension entitlements) where these go beyond the Companies Act or the SORP. SQA does disclose notional costs and salary and pension entitlements.
- An overview of the guidance was carried out for any other additional disclosures to be considered. We identified that an area which could be expanded relates to having a separate Remuneration Report. Additional information (to that currently disclosed) would include information on the Remuneration Committee, explanations and methods used to assess performance and notice periods.
- SQA is to lose its charity status in March 2007. 2006-07 would be an opportunity to review all the disclosure requirements to meet the future change of status.



**Action point 2**

- The wider aspects of SQA losing its charitable status will be considered as part of planning for 2006-07.



# Governance

## Introduction

23. Our interim work covered the follow-up of previous reports and aspects of the funding arrangements in place for 2005-06. The majority of action plan points were addressed with VAT training being carried forward into 2006-07 when the new finance system is implemented.

## Overall Conclusion

24. During our audit we reviewed the governance systems operating at SQA. In general, we are content that they are soundly based.

## Systems of Internal Control

25. In February 2005 Ministers agreed to revised funding arrangements for 2005-06 whereby:
- SQA would recover the full cost of its “*engine room*” functions (i.e. the delivery of qualifications) from charges to its customers. SQA agreed increased qualification charges for 2005;
  - a grant-in-aid regime would be set in place whereby the Executive procure a specified level of service from the SQA in terms of the delivery of policy advice and development work; and
  - SQA would prepare business cases for major project funding where this is required to improve the quality of the qualifications’ system and for investment in capital infrastructure.
26. Testing, on a sample basis, confirmed that: new entry charges are being applied correctly and that claims made to the Scottish Executive for development funding and business cases were supported by related costs.
27. As the Minister’s letter states, SQA is to recover the full cost of “*engine room*” functions through charges but we could not clearly see progress on this being reported to the Board during the year. Receipts of entries and invoicing do not take place steadily across the year so a monthly update may not be appropriate and monthly reporting to the Board is by business areas as this improves accountability. However, we consider SQA could improve its reporting to the Board on progress of matching “*engine room*” costs with charges.

**Action point 3**



## Review of Internal Audit

28. SQA recognises that internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. To maximise the reliance that external audit can place on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
29. Internal audit is provided by PricewaterhouseCoopers (PwC). An assessment was made of the adequacy of the internal audit input, including a visit to PwC to review files, and we concluded that we could continue to place reliance on the work of internal audit for 2005-06.
30. PwC submitted their annual report to the Audit and Performance Committee in May 2006. This report provides an evaluation of SQA's internal control system, based on internal audit work during the year. The 2005-06 report commented that overall SQA's established internal control procedures were adequate to meet management's control objectives for each system reviewed. We noted internal audit were able to undertake more operational reviews in 2005-06 as financial control improvements reported in 2004-05 continued into 2005-06.



# Performance Management

## Introduction

31. This section covers our assessment of the way in which SQA secures value for money in the use of its resources. This year we focused on two main areas:
- Efficient Government; and
  - Best Value.

## Efficient Government

32. The Efficient Government initiative is a 5 year programme with the aim of reducing waste, bureaucracy and duplication in Scotland's public sector. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.
33. SQA has committed to cash releasing savings of £1 million over the 3 year period from 2005-06 to 2007-08 from operating expenditure. As part of its contribution to Efficient Government savings SQA has agreed to flat line its operational costs over a three year period essentially absorbing any increases that would normally be caused by inflation.
34. During 2005-06 Audit Scotland completed a management arrangements diagnostic on Efficient Government activities across a number of Central Government organisations including SQA. It aimed at providing baseline information on arrangements across a range of Efficient Government related topics.
35. Overall we concluded that for 2005-06, SQA did not have systems in place for the regular monitoring, measuring and reporting of the efficiency savings which contribute to the efficient government plan. To complete the statement of efficiency savings for 2005-06, SQA undertook a review of operational costs compared to 2004-05 baseline costs, identifying where savings were made, as opposed to decrease in activity. SQA reported cash releasing savings of £0.5 million, compared to a target of £0.3 million. For 2006-07 onwards SQA are reviewing costs v forecasts on a quarterly basis and identifying whether the savings are due to efficiency savings or reduction in activity.



36. A detailed position statement of the sample of public sector organisations in Scotland is being produced by Audit Scotland and will be issued.

## Best Value

37. Since April 2002 there has been a duty of Best Value on Accountable Officers to “ensure arrangements are in place to secure Best Value”. High level guidance was issued in May 2003, followed by more detailed draft secondary guidance in August 2003. This duty can be described as:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost);
- to have regard to economy, efficiency and effectiveness, and the equal opportunity requirements; and
- to contribute to the achievement of sustainable development.

38. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, Ministers do wish to encourage and embed the principles of Best Value across the wider public sector and revised guidance was issued in May 2006.

39. For 2005-06 Audit Scotland reviewed how well advanced arrangements are in place by public bodies across the central government sector to demonstrate Best Value, and to identify areas of good practice. As part of this review we completed a Best Value analysis to establish baseline information on the management arrangements in place within SQA. The overall aim of this analysis was to establish the organisation’s arrangements for taking forward the Best Value agenda and demonstrating continuous improvement.

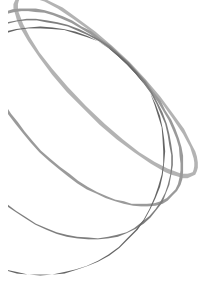
40. Overall, we assessed SQA’s arrangements to secure Best Value as being under development and indicating satisfactory progress. We noted that SQA had already undertaken a self-assessment, the internal auditors had carried out an independent review of arrangements and during the course of 2005-06, SQA introduced Business Area Performance Reviews, all demonstrating a commitment to continuous improvement.

41. The results of the review across the wider public sector are currently being evaluated and will be published by Audit Scotland during 2006.



## National Studies

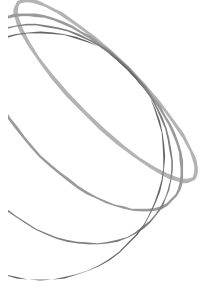
42. The Central Government team within the Performance Audit division of Audit Scotland is currently undertaking a study on SQA. The overall aim of the study is to determine whether the performance management framework for SQA provides an appropriate basis for monitoring performance and whether information is used effectively to encourage continuous improvement. The study addresses three key questions:
- What information is available to assess the performance of SQA?
  - Is this range of information adequate to the purpose of assessing SQA's performance?
  - Is performance information used to encourage continuous improvement i.e. is performance *managed*, or simply measured?
43. Fieldwork will be completed soon with publication planned for Autumn 2006.



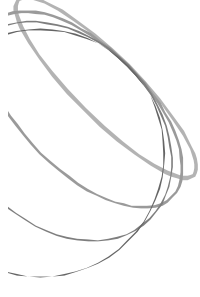
# Appendix A: Outcome on Risks Identified in the Audit Risk Analysis and Plan

Risk	Management assurances	Planned audit action	Outcome
<p><b>Funding arrangements</b></p> <p>1. Up until 2004-05 the level of additional grant funding was increasing year on year and SQA was not demonstrating recovery towards being self-financing. In February 2005 Ministers agreed to revised funding arrangements for 2005-06.</p>	<p>Financial forecasting and budgeting arrangements monitor income and expenditure.</p> <p>Monthly management accounts, with commentary, reviewed at Board level.</p> <p>SQA meet with the Scottish Executive to discuss monthly finance reports.</p> <p>3 year financial forecasts are in place.</p>	<p>Review the procedures SQA has in place to ensure new funding arrangements are being adhered to.</p> <p>Review financial position at 31 March 2006 and comment in Final Report on the audit.</p>	<p>The Income and Expenditure show that additional funding from the Executive has decreased from £12.6m to £10.6m</p>

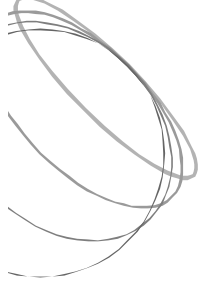




Risk	Management assurances	Planned audit action	Outcome
<p><b>Project Management</b></p> <p>2. An objective within the Corporate Plan 2005-2008 is to implement the commercial strategy. SQA are undertaking work in new markets, including overseas work. Due to the complexity of these projects they are at risk of increased costs and slippage.</p>	<p>International and Commercial Committee, with various sub-groups, was set up to support this work.</p> <p>Progress is monitored through monthly Management Team meetings and quarterly to the Board of Management and Scottish Executive.</p>	<p>Track progress through Committee papers and minutes.</p> <p>Review the results of Internal Audit report on the China project.</p> <p>Follow-up the status of VAT issues on overseas contracts.</p> <p>Review final outturn of income v costs on significant projects.</p>	<p>International and Commercial committee met regularly during the year and minutes and updates were reported to the Board.</p> <p>The results from the internal audit were generally positive with examples of good practice in planning and monitoring of the project. Recommendations were made on income collection and funding arrangements.</p> <p>The overseas VAT issues from 2004-05 have generally been resolved, with final payments less than provided for, as shown in note 17 to the accounts.</p> <p>The main area for comment is China. SQA developed its activity in China in 2005-06 but incurred significant costs, exceeding £1m. Income generated has been limited due to problems in income collection but SQA absorbed the costs from its existing budget. Since the 31 March 2006 contracts and payment plans are now in place to improve income collection. Lessons learned on financial planning have been taken forward by the I&amp;CC for other international work.</p>



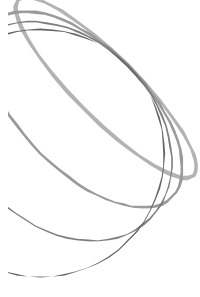
Risk	Management assurances	Planned audit action	Outcome
<p><b>Risk Management</b></p> <p>3. Risk management policy and guidelines were approved by the August 2005 Audit and Performance Committee. If the risk framework is not embedded across the organisation, key risks may not be identified to then be managed by senior management.</p>	<p>Risk training being provided to help business managers adopt and add to the risk management framework.</p> <p>Corporate and business plan risks are reviewed quarterly and reported to the Audit and Performance Committee by exception.</p>	<p>Review the progress that SQA has undertaken to embed the risk management framework.</p> <p>Track reviews through monthly management meetings</p>	<p>Risk management process is being rolled out across the organisation, with each business area responsible for completing a risk register. Central support is provided by the Corporate Improvement Manager. The Statement of Internal Control acknowledges that to develop internal control, further embedding of the risk management framework is required.</p>
<p><b>Efficient Govt and Best Value</b></p> <p>4. There is a risk that requirements are not appropriately managed and fully delivered.</p>	<p>SQA has undertaken Best Value reviews across certain aspects of the organisation. Internal Audit is undertaking a review to assess whether SQA has adequately addressed the duty to implement the arrangements which secure Best Value.</p> <p>Efficient Government targets have been set for SQA and these are being regularly monitored.</p>	<p>Review the results of the Internal Audit report on Best Value.</p> <p>Audit Scotland Best Value diagnostic will be completed.</p> <p>Audit Scotland Efficient Government diagnostic will be completed.</p>	<p>Audit Scotland compiled the Efficient Government Initiative diagnostic and reviewed the arrangements in place to achieve Best Value.</p> <p>National reports will be produced later in 2006.</p> <p>See <i>paragraphs 28-38</i>.</p>



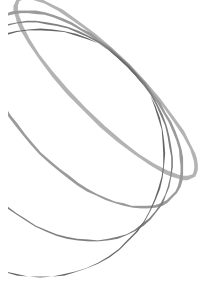
Risk	Management assurances	Planned audit action	Outcome
<p><b>Certification</b></p> <p>5. Whilst SQA has successfully delivered exams diets since 2001, any problems in delivering exams and certification would result in loss of reputation.</p>	<p>The Certification planning Group meets weekly.</p> <p>Progress on Critical Success Factors in the Certification Action Plan are monitored and reported to the Audit and Performance Committee using a traffic light system.</p>	<p>Monitor progress through SQA's Critical Success Factor Action Plan Monitoring reports and comment in Final Report on the audit.</p>	<p>The Certification Planning Group reports to the Board and SQA staff independently report on progress to the Audit and Performance Committee via the Critical Success Factor Action Plan Monitoring reports.</p> <p>Certificates were successfully issued on Tuesday 8 August 2006.</p>
<p><b>Office move</b></p> <p>6. SQA's Glasgow staff move premises in April 2006. There is a risk of system failure with the move to new premises and key data being lost.</p>	<p>In April 2005 SQA ran a successful consolidated test of its business recovery plans. Consultants confirmed that controlled and effective procedures were in place for SQA to continue to operate effectively in the event of an incident or disaster.</p> <p>Regarding the move, back-up arrangements are in place and testing will be carried out on key financial systems before going live.</p>	<p>Review results of testing on financial ledger following the Glasgow move.</p>	<p>All primary SQA financial systems are run from Dalkeith. The disaster recovery servers were migrated to Optima in Glasgow. Full verified backups were taken of every server moved and these were stored off site. IT then carried out full connectivity tests (with the help of specialist IT move company) once the servers had been relocated in the Optima data centre and no issues were reported to the Helpdesk.</p> <p>During Audit Scotland's visit to Optima House there were no problems with information requested and provided from the financial ledger.</p>

## Appendix B: Action Plan: Recommendations for Further Improvements

Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
1	7	<p><b>Group accounts</b></p> <p>SQA are in discussion with the Scottish Executive on establishing a trading subsidiary. Awards UK are currently not consolidated into the accounts of SQA on the grounds of not being material.</p> <p>There is a risk that SQA's accounts are incomplete without considering the results of joint ventures and subsidiaries.</p> <p><i>We recommend SQA review the requirements to prepare group accounts for 2006-07</i></p>	<p>SQA will prepare group accounts for 2006-07 if a trading subsidiary is established or the results of Awards UK become material.</p>	<p>Business Manager Finance</p>	<p>30 June 2007</p>



Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
2	18	<p><b>Disclosure requirements</b></p> <p>In line with requirements of the FReM, charities follow the Statement of Recommended Practice (SORP) Accounting by Charities and SQA's Annual Report and Accounts follow these requirements. The FReM comments that bodies should also follow the principles in the Manual and provide the additional disclosures required by the Manual (for example, notional costs and disclosure on salary and pension entitlements) where these go beyond the Companies Act or the SORP. Aspects of the Remuneration Report are not disclosed for 2005-06.</p> <p>There is a risk that SQA does not make disclosures as required by guidance.</p> <p><i>We recommend that a full review of the FReM be undertaken as part of the accounts preparation process for 2006-07.</i></p>	<p>SQA reviewed the requirements for disclosure in 2005-06 and believe that the disclosure made is appropriate. SQA will lose its charitable status in March 2007. Disclosure requirements for 2006-07 will be re-examined and adjustments made accordingly.</p>	Business Manager Finance	30 June 2007



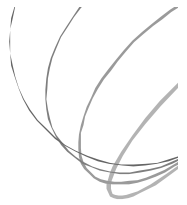
Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
3	23	<p><b>Recovery of Full Costs</b></p> <p>SQA is to recover the full cost of its “engine room” functions (i.e. the delivery of qualifications) from charges to its customers.</p> <p>The Board risk not being able to monitor progress towards this without the appropriate level of information being provided.</p> <p><i>We recommend that reporting of “engine room” functions be reconsidered and discussed with the Board.</i></p>	<p>SQA is commencing work with the Scottish Executive on a revised funding model. Reporting will be considered as part of this exercise. This will be in place for financial year 2007-08.</p>	<p>Business Finance Manager</p>	<p>March 2007</p>



# Appendix C: ISA 260

A letter was sent to the Chief Executive on 14 August 2006 to formally communicate the up to date position on the outcome of the audit work prior to the accounts being signed. The letter was in keeping with the International Standard on Auditing 260: *Communication of audit matters to those charged with governance*. The main applicable requirements are set out below.

ISA 260 Requirement:	Outcome: (as at 14 August)
1. The nature and scope of the audit, including any limitations, and the form of reports expected to be made	This information was outlined in the Audit Planning Memorandum presented to the Risk Monitoring and Audit Committee on 28 February 2006.
2. Expected modifications to the audit report	We will be issuing a clear audit opinion.
3. Unadjusted misstatements	There are no unadjusted misstatements in the accounts.
4. Material weaknesses in the accounting and internal control systems identified during the audit	The audit has not identified any material weaknesses in accounting and internal control arrangements; the Statement on Internal Control appropriately reflects circumstances. More detailed comments on less significant items have been brought to SQA's attention by internal audit and external audit.
5. Views about the qualitative aspects of accounting practices and financial reporting	<p>The significant judgements included in the accounts relate to:</p> <p><b>Format of the accounts:</b> see Page 6, paragraph 18.</p> <p><b>Website development costs:</b> Fixed asset additions included website development costs of £165,000. The Financial Reporting Manual comments that on applying the guidance to the public sector, costs should not be capitalised if the primary purpose of the website is for informing stakeholders of services or other objectives of the entity. Website planning costs should be expensed as incurred. Whilst the Annual Report discusses developments for web-based processes, the website is still primarily for providing information and costs should not be capitalised. The accounts were amended and website costs expensed.</p>



ISA 260 Requirement:	Outcome:
<p>5. Continued - Views about the qualitative aspects of accounting practices and financial reporting</p>	<p>The significant judgements included in the accounts relate to:</p> <p><b>Contingent liability:</b> note 20 discloses information on a writ issued against SQA. Accounting standards provide guidance on when liabilities should be accounted for as contingent liabilities or provisions. Details were obtained on the timing and status of the legal process and considered in light of the accounting standards. It was agreed that contingent liability was the most appropriate disclosure.</p> <p><b>Income sources:</b> SQA receive income from overseas work including entry charges for China and consultancy fees across other countries. SQA also receive funds from the European Union. These funds are currently not separately disclosed as they are still a small part of the overall income sources of SQA. With growing commercial and international work fuller disclosure in the accounts of sources of income would better demonstrate the activities of SQA. The Business Manager Finance agreed to review the income disclosures for 2006-07.</p>
<p>6. Matters specifically required by other auditing standards to be communicated and any other matter relevant to the audit</p>	<p>Nothing to report</p>