

Scottish Qualifications Authority

Report on the 2007/08 Audit



September 2008



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Executive Summary

Introduction

In 2007/08 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 aspects of performance management and governance. This report sets out our key findings.

Financial Position

SQA achieved a surplus of £0.654 million in 2007/08. This is the difference between the net operating expenditure for the year of £15.255 million and the funding received from the Scottish Government of £15.909 million.

SQA has a resource budget of £63.54 million for 2008/09 with £45.514 million of this funded from income from charging schemes and the remaining £18.026 million funded by the Scottish Government. SQA is predicting a balanced budget for 2008/09 and is also required to make 2% cash releasing efficiency savings in the next three years' budget settlement. These will be challenging targets for SQA to achieve and we will continue to keep developments in this area under review.

Financial Statements

We have given an unqualified opinion on the financial statements of SQA for 2007/08. 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.

Governance

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

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

Best Value

Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year. Currently we are concentrating on the development of Use of Resources audit toolkits, focusing initially on Financial Management, Efficiency, and



Information Management. These toolkits are being piloted in a sample of NHS and central government clients during 2007/08 and 2008/09. Developed toolkits will also be made available to public bodies to consider for self assessment.

In early 2008 SQA prepared an update of the baseline review of best value. This was reviewed by SQA internal audit, which concluded that SQA had demonstrated significant commitment to the principles of Best Value.

Performance

In 2007 SQA initiated a programme of continuous improvement. This programme is intended to embed continuous improvement in SQA through the development of skills and techniques to deliver best value. To date the programme has identified 20 separate improvement projects to be undertaken at SQA and has contributed to the re-organisation of its management function in order to deliver a new structure which is more focused on delivering cross functional management of SQA's activities.

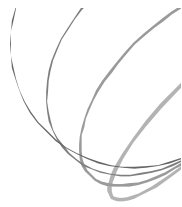
SQA uses a balanced scorecard to measure performance. The scorecard records progress against objectives as 'on target' if more than 95% of agreed target performance has been achieved. SQA achieved an 'on target' rating for fourteen out of the twenty performance measures for 2007/08. Four performance measures were unable to be produced at the time of the financial statements being prepared due to results not yet being available. SQA failed to achieve two targets on which they were able to report, by not achieving at least 90% of target performance level.

Looking forward

The final part of our report notes some key risk areas for SQA going forward. We highlighted a number of national issues which affect all public sector bodies including SQA, including the introduction of Scotland Performs; the impact of international financial reporting standards; and the review of data handling arrangement in public bodies across Scotland.

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

Audit Scotland
September 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of SQA. The scope of the audit was set out in our Audit Plan, which was presented to the Audit and Performance Committee on 20 February 2008. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a number of reports this year to the Audit and Performance Committee, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response.
3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of SQA during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.



Financial Position

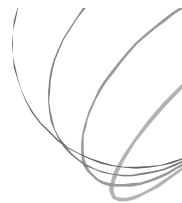
4. In this section we summarise key outcomes from our audit of SQA's financial statements for 2007/08, and comment on the key financial management and accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

5. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the SQA and its expenditure and income for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - the consistency of the information which comprises the sections, Who We Are And What We Do, Our Operating Environment, How We Operate, SQA Objectives For 2007-08, Management Commentary section on People, Performance and The Future, with the financial statements, and
 - the regularity of the expenditure and receipts.
6. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the chief executive as accountable officer to obtain assurances on systems of internal control, and
 - assessing whether disclosures in the statement are consistent with our knowledge of SQA.

Overall conclusion

7. We have given an unqualified opinion on the financial statements of SQA for 2007/08.
8. Accounts were submitted for audit on 12 May 2008, supported by a comprehensive working paper package. The good standard of the supporting papers and the timely responses from SQA staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit and Performance Committee on 9 July 2008 as timetabled.
9. As a result of delays in preparation of the final version of the Annual Report and Accounts, signed documents were not provided for certification until 13 October 2008. Given the gap between offering our opinion and the date of signing, a further Post Balance Sheet Events review was required prior to



certification. Our review concluded that there were no matters which require adjusting or matters which require disclosure.

10. Officers have provided the relevant assurances that for future years, final versions of the signed documents will be provided in accordance with an agreed timetable.

Financial Position

Outturn 2007/08

11. SQA is required to work within the resource budget set by the Scottish Government. SQA achieved a surplus of £0.654 million in 2007/08. This is the difference between the net operating expenditure for the year of £15.255 million and the funding received from the Scottish Government of £15.909 million.

2008/09 Budget

12. Scottish Ministers have agreed a resource budget for SQA of £63.54 million for 2008/09 with £45.514 million of this funded from income from charging schemes and the remaining £18.026 million funded by the Scottish Government. The total resource budget has been allocated with £62.5 million for operating expenditure and £1.040 million for capital expenditure.
13. One of the overriding objectives of the annual budget, for the SQA, is that the budget must balance i.e. expenditure must not be greater than income. For the SQA, to encompass their funding arrangement with the Scottish Government, the imperative for this objective is on a cash, rather than an accruals, basis.
14. Clearly there is a risk that this objective is not achieved. The risk is managed by SQA through a system of monthly financial reporting and quarterly forecasting on both an accruals and a cash basis. Any potential cash shortfall or surplus is identified through these mechanisms and remedial action is identified to address any imbalance.
15. In the event that the SQA identifies an unmanageable cash shortfall they would consult with the Scottish Government on a financial resolution. We will continue to monitor the financial position of SQA and the actions taken to manage any financial challenges that arise.
16. The application of International Financial Reporting and Accounting Standards (IFRS) to central government bodies from 1 April 2008 will lead to changes in the way the accounts are presented. In particular the way in which the SQA accounts for its estate assets will change, impacting on the financial statements and financial planning. The introduction of the accounting changes will require forward planning to anticipate restatement issues and to feed into financial plans. We will continue to work with SQA to support the introduction of IFRS.



Issues arising from the audit

17. As required by auditing standards we reported to the Audit and Performance Committee on 9 July 2008 the main issues arising from our audit of the financial statements. The main issue reported was that SQA has never prepared a set of group accounts, incorporating the results of Awards UK Limited, (a 50:50 Joint Venture with London Qualifications Limited) on the grounds of materiality. However, over recent years the turnover of Awards UK Limited had grown, with unaudited results for 2007/08 for the joint venture reporting a turnover of some £2 million. Accordingly we recommended that, given the growth of the joint venture since it was set up and in order to comply with Financial Reporting Standards, SQA prepares group accounts that incorporate the results of Awards UK Limited. Changes were made to the final version of accounts enabling full compliance with financial reporting standards.

Regularity Assertion

18. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to her view on adherence to enactments and guidance. No significant issues were identified for disclosure.



Governance

Overview of arrangements

19. This section sets out our main findings arising from our review of SQA governance arrangements.

This year we reviewed:

- key systems of internal control; and
- internal audit.

20. We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position. Our overall conclusion is that arrangements within SQA are sound and have operated through 2007/08.

Corporate Objectives

21. SQA recently published its corporate plan for 2008 – 2011. The plan focuses on six key overall objectives:

- Provide qualifications, services and support to match the needs of individuals, society and the economy of Scotland;
- Inform and support national policy development and implementation;
- Enhance our services and processes to make them better to use and more efficient;
- Develop a highly-skilled, motivated and effective workforce;
- Increase the use of SQA qualifications and services nationally and internationally; and
- Provide a service which promotes and maintains public confidence in accredited vocational qualifications and approved awarding bodies.

22. Within each overall objective SQA has set corporate objectives along with business objectives. Alongside the development of these objectives, SQA has also reorganised its management structure to create a cross functional approach to SQA's business. This re-organisation was driven by the Continuous Improvement Programme being undertaken at SQA (see paragraphs 31-33).

23. The delivery of these objectives will be challenging and this is an area we will keep under review during our appointment.



Systems of internal control

24. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2007/08 the internal auditors stated that the internal audit work undertaken during the year did not identify any significant control weaknesses that were considered to be pervasive in their effect on the system of internal control.
25. As part of our audit we reviewed the high level controls in a number of SQA systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively.

Prevention and detection of fraud and irregularities

26. During the year SQA have implemented an anti-fraud policy and fraud response plan. This arose as a result of a request from SQA's sponsor department within the Scottish Government.

Internal Audit

27. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2007/08 audit we assessed whether we could place reliance on SQA's internal audit function. We concluded that the internal audit service, provided by PricewaterhouseCoopers LLP, operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2007/08, as set out in our annual audit plan.

Statement on Internal Control

28. The Statement on Internal Control provided by SQA's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out SQA's approach to this.



Performance Management

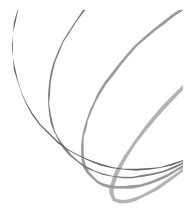
29. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.
30. Accountable officers also have a duty to ensure the resources of their organisation are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

Continuous Improvement

31. In 2007 SQA began a programme of continuous improvement. The programme was intended to embed continuous improvement in SQA through the development of skills and techniques to deliver best value.
32. The programme of continuous improvement involves activity across six strands of activity, including qualifications development, approval and verification, and commercial work. To date work has been undertaken on reviewing SQA's processes, roles, structures, systems and competencies which has contributed to the identification of many improvements and refinements, including the re-organisation of the management structure outlined at paragraph 22 above.
33. By April 2008 over 117 potential improvement activities had been identified as a result of work on the continuous improvement programme. A process of mapping these improvement activities into existing projects and initiatives has led to a consolidated list of 20 improvement projects which have been ranked in terms of priority. Projects are actively managed by a Programme Board who ensure the appropriate allocation of resources, monitor milestones, investments and savings. This is an important development and one which we will keep under review during our appointment.

Best Value developments

34. The positive impact of the Best Value concept in local government led Scottish Ministers to introduce a non-statutory Best Value duty on all public sector accountable officers (i.e. across health and central government) in 2002. This was reinforced by refreshed Ministerial guidance in 2006, highlighting the importance that the Scottish Government places on Best Value as a means of supporting public service reform.



35. That position was again re-iterated in the Scottish Government's recent response to the Crerar scrutiny review which credited the Best Value regime as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year.
36. The framework for our proposed Best Value audit approach was agreed by Audit Scotland's Corporate Management Team in September 2007. It is based on the key principles of flexibility and proportionality; alignment and integration with our existing activities; being delivered within our existing resources, and with an evolutionary implementation.
37. Using the Scottish Government's nine best value principles as the basis for our audit activity, we have identified five priority development areas (Use of Resources, Governance and Risk Management, Accountability, Review and Option Appraisal, and Joint Working) for our initial development work.
38. Currently we are concentrating on the development of Use of Resources audit toolkits, focusing initially on Financial Management, Efficiency, and Information Management. These toolkits are being piloted in a sample of NHS and central government clients during 2007/08 and 2008/09. Developed toolkits will also be made available to public bodies to consider for self assessment.
39. In early 2008 SQA prepared an update of the baseline review of best value. This was reviewed by SQA internal audit, which concluded that SQA had demonstrated significant commitment to the principles of Best Value.
40. We will consider further how SQA is addressing this developing area as part of the 2008/09 audit.

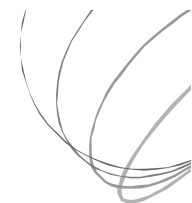


Efficiency

41. The Scottish Qualifications Authority target for the Efficient Government Plan for the three years to 2007/08 was £1 million of cash-releasing savings. The actual savings achieved to 31 March 2008 were £1.09 million of cash releasing.
42. Future efficiency savings are set at 2% per annum, as part of the budget settlement from the Scottish Government for the next three years. This translates to a cumulative £1 million in cash releasing savings required to be delivered by SQA during the three years to 2010/11 (£0.4 million cash releasing savings in 2008/09 and £0.3 million in 2009/10 and 2010/11). These will be challenging targets for SQA to achieve and we will keep developments in this area under review during 2008/09.

Performance Management

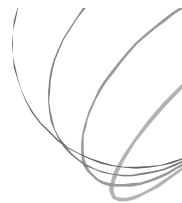
43. SQA uses a balanced scorecard to measure performance. The balanced scorecard has twenty performance measures which monitor progress against indicators and targets agreed with the Scottish Government. SQA aligns these performance measures into the following four broad areas, reflecting their corporate objectives:
 - Portfolio;
 - Partnership;
 - People; and
 - Process.
44. The scorecard records progress against objectives as 'on target' if more than 95% of agreed target performance has been achieved. SQA achieved an 'on target' rating for fourteen out of the twenty performance measures for 2007/08. Four performance measures were unable to be produced at the time of the financial statements being prepared due to results not yet being available. SQA failed to achieve two targets on which they were able to report, by not achieving at least 90% of target performance level.



45. A breakdown of achievement against each performance measure is set out in tabular format below:

Target by Objective	Performance Measure	Target	Actual	Achievement Percentage
Portfolio	Achieve diet performance measures & certification targets.	100%	100%	100%
Portfolio	Achieve development targets for qualifications & services.	100%	97.3%	97.3%
Portfolio	Deliver the accreditation service & development activities (accreditation submissions).	374	301	80.4%
Portfolio	Deliver the accreditation service & development activities (SQA accreditation performance).	374	359	95.9%
Portfolio	Increase uptake in markets by 3% vs. Last year.	105,895	107,446	101.5%
Portfolio	Achieve commercial targets.	100%	106.9%	106.9%
Portfolio	Increase the level of CPD uptake by 5% vs. Last year.	2,711	9,692	357.5%
Portfolio	Achieve satisfaction with our CPD offering of at least.	100%	97%	97%
Partnership	Increase centres' satisfaction with SQA to at least.	81%	81.6%	100.8%
Partnership	Achieve stakeholder satisfaction with SQA of at least.	70%	-	-
Partnership	Have effective relationships with identified key partners.	75%	-	-
Partnership	Make effective contributions to policy development in identified key areas.	100%	-	-
People	Achieve employee attendance levels of at least.	95.5%	97.3%	101.9%
People	Adhere to core funded headcount levels.	629	612.2	97.3%
People	Achieve 100% of agreed PMR development requests.	2,571	2,539	98.8%
People	Maintain the level of employees 'proud to work for SQA' at.	80%	-	-
People	Achieve environmental targets.	100%	(1.2%)	(1.2%)
Process	Achieve modernisation programme milestones & targets.	100%	100%	100%
Process	Achieve financial targets.	100%	99.7%	99.7%
Process	Achieve agreed efficiency savings.	£250k	£340k	136%

Source: 2007/08 SQA Annual Report and Accounts.



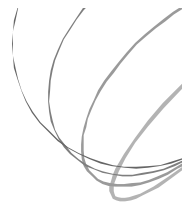
46. Of the two targets where less than 90% achievement has been recorded, the first relates to the requirement to deliver the accreditation service and development activities. SQA had a target of 374 out of 396 submissions to the Accreditation Co-ordination Group within 30 days. The actual number of submissions within the 30 day limit was 301 out of 396; this represents an overall success rate of 80.4%.
47. The second relates to the requirement to achieve environmental targets. Officers attribute the lack of achievement to comparisons being made, between the current Optima building and previously occupied properties in Glasgow which are not directly comparable.



Looking Forward

48. SQA faces a number of challenges in 2008/09, which include:

- **Continuous Improvement** – SQA has begun a programme of continuous improvement, this programme has six strands of activity, including qualifications development, approval and verifications, and commercial work. Work on continuous improvement involves mapping processes to identify scope for improvement and greater efficiency. To date the work has led to organisational restructuring to align SQA's business with the mapped processes. Further work is planned on process mapping and a number of improvement projects are underway as a result of work completed to date. We will continue to monitor SQA's work on continuous improvement.
- **Dalkeith relocation** – In April 2008, SQA produced an outline business case proposing a relocation of SQA operations from their Dalkeith premises. This outline business case was accepted by Scottish Ministers and SQA are currently in the process of searching for suitable new premises. We will continue to monitor SQA's progress in relocating from their current Dalkeith premises.
- **Corporate plan 2008 - 2011** – SQA published its corporate plan in 2008, covering the next three years. The corporate plan includes key actions and timescales. We will continue to review SQA's performance against these targets and how this is reported.
- **International Financial Reporting Standards (IFRS)** – As part of the UK Budget 2007 the Chancellor announced that the timetable for IFRS implementation was to be extended by a year with central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. The Scottish Government have notified central government bodies that they will be required to produce shadow IFRS based accounts for the financial year in 2008/09, including a restated balance sheet as at 1 April 2008. A detailed timetable and list of requirements has been issued by the Scottish Government. This process may require significant resource to complete and it will be important that the restatement is tackled early in 2008/09, with a plan in place to manage the transition.
- **Scotland Performs** – The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements. The National Performance Framework is based on the outcome based 'Virginia-style' model of performance measurement and reporting. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how SQA is addressing this developing area as part of the 2008/09 audit.



- **Efficiency and future funding** – Budgets for 2008/09 and the immediate future will need to be managed within a tighter funding regime. This includes significantly less scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. The challenge for SQA is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Data handling** – The Scottish Government carried out a review of data handling arrangements in Scotland, in response to failures in UK government bodies' procedures and practices during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. An interim report published in April 2008 made some initial recommendations and a final report is expected soon. We will monitor SQA's response to the review and action taken as part of our 2008/09 audit.