

Annual Financial Accounts

for the year ended 31 March 2005



**SCOTTISH
QUALIFICATIONS
AUTHORITY**

Annual Financial Accounts

for the year ended 31 March 2005

ANNUAL FINANCIAL ACCOUNTS

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Foreword to the Annual Financial Accounts

The Board of Management has pleasure in presenting the Annual Financial Accounts for the year ended 31 March 2005. These have been prepared as directed by the Scottish Ministers in accordance with Section 16 of the Education (Scotland) Act 1996.

Introduction

The Scottish Qualifications Authority (SQA) is a Non-Departmental Public Body, responsible to the Scottish Parliament, through the Scottish Executive Education Department, for the development and management of assessment and certification of a wide range of qualifications in Scotland. SQA was established under Section 1 of the Education (Scotland) Act 1996 in succession to the Scottish Examination Board and the Scottish Vocational Education Council. SQA is a recognised charity within the meaning of section 1(7) of the Law Reform and Miscellaneous Provisions (Scotland) Act 1990.

Financial results for the year ended 31 March 2005

The deficit for the year ended 31 March 2005 is £1,334,000 after additional grant funding from the Scottish Executive of £12,616,000.

During the financial year ended 31 March 2005, SQA received additional funding from the Scottish Executive to meet costs incurred in providing national qualifications and other services. A mechanism was agreed during the year, with the Scottish Executive through which SQA would become self financing. In order that SQA can continue to meet this objective, it is important that new and existing markets are developed for the qualifications and services it offers.

As SQA receives additional grant funding from the Scottish Executive on the basis of cash requirements, it is expected that SQA will not retain cash balances at the year end. The cash balance at the year end was £390,000 (2004: £nil). This balance was retained with the agreement of the Scottish Executive in order to meet ongoing commitments.

During the year SQA invested £537,000 in fixed assets. The majority of this amount related to new computer hardware and software to ensure the continued integrity and availability of SQA's data.

ACHIEVEMENTS DURING FINANCIAL YEAR 2004/05

For financial year 2004/05, SQA progressed work on the two broad strategic themes set out in its Corporate Plan for 2004/07: Maintaining Effective Delivery and Improving Corporate Performance.

Maintaining Effective Delivery

141,770 candidates were certificated in August 2004 for the main diet of National Qualifications. We met the performance measures that had been agreed with the Scottish Executive for 2004. These cover a range of indicators, including deadlines for delivery of certificates, statements of results (SORs), and appeals results; and turnaround times to resolve queries raised by candidates or centre staff. Similar measures have been agreed for 2005.

In addition to the smooth delivery of the August 2004 diet, we achieved a number of milestones in developments to improve our processes:

- Following the outcomes of the review of External Moderation, we revised our plans for the central moderation of National Qualifications. The plans took account of course feedback and new/changed provision introduced during 2004/05.
- We developed an 'Understanding Standards' programme to support centres in delivering SQA qualifications. This included publication of marking instructions, appeals exemplifications and other support materials, as well as a series of Professional Development Workshops.
- We issued new guidance for candidates with disabilities and/or additional support needs. We also made changes to the mechanism for centres to send us information requesting additional support for these candidates.

We have continued to review and modernise our portfolio of qualifications, including National Qualifications, Higher National Qualifications, and Scottish Vocational Qualifications.

- Phase Two of the National Qualifications Review continued on schedule. A further 24 National Courses have been revised for implementation in either academic session 2005/06 or 2006/07.
- The Higher National Qualifications Modernisation Project continued on track, with the schedule now published on our website and updated each month. An HN Centre Toolkit was published, communicating revision models to centres involved in consortium, specialist collaborative or single-centre led revisions, and HN Staff Development Guides were enhanced to share good practice.
- Scottish Vocational Qualification entries grew by 11% during 2004/05 over figures for the previous year.
- A new suite of Scottish Progression Awards based on National Units was expanded with the addition of Enterprise & Employability, Sport & Recreation, Engineering and Vehicle Maintenance.
- The Scottish Progression Award 'PC Passport', which launched in April 2004, is attracting interest from the qualifications market around the UK and overseas as a route to achieving the IT User National Occupational competences. 6,791 candidates entered for PC Passport units during 2004/05.
- To support teachers and those with an interest in online learning, SQA introduced a suite of awards aimed at teaching staff.

Improving Corporate Performance

Customers now have improved access to their data on our computers via the free SQA.net service. SQA-RED and SQA-REX data management systems are also now available free of charge, and are used by 'smaller' customers to provide them with an effective electronic data transfer system and a reduction in bureaucracy.

A major area of development for SQA during 2004/05 was the delivery of the SQA Style series of Customer Service training events. The programme was delivered to all SQA employees, with all staff attending a half-day workshop and follow-up one-day events.

Planning, budgeting, forecasting and management reporting processes have been improved. There were also improvements to cash management and debt recovery, which resulted in £2m of aged debt being recovered. Customers now receive invoices on a monthly basis.

The organisation continued to work with the Trade Unions in a partnership style throughout 2004/05, and implemented an agreed 3-year pay deal from 1 April 2004, which was linked to pay progression and performance management systems. This year also saw the introduction of an in-house occupational health service. In April 2004, we were presented with a Bronze award as part of the Scotland's Health at Work initiative.

We initiated work during 2004/05 to improve recruitment, retention and development of appointees. These key individuals carry out a range of activities on our behalf, including invigilation, marking, moderation, and the setting, vetting and scrutiny of question papers.

Working with Others

As part of SQA's review of regulatory and accrediting functions, we secured agreement with the Qualifications and Curriculum Authority (QCA) that, from 1 April 2005, we will act on QCA's behalf to conduct monitoring visits to NVQ-approved centres in Scotland.

During 2004/05, we continued our work with partners to develop the Scottish Credit and Qualifications Framework. The SCQF clarifies the relationship between qualifications to increase the ability of Scotland's learners to progress between learning routes and towards additional education, training and employment opportunities. As part of the HN Modernisation programme, allocation of SCQF levels and credits to qualifications progressed in line with our commitments to the SCQF action plan, and a targeted communications programme was completed.

We also continued our work with the Scottish Executive, national agencies and key stakeholder organisations to contribute to the strategic development of Scotland's education and training system.

- We responded to the reference in "A Curriculum for Excellence" to a new range of Skills for Work courses by developing a selection of these new Courses, in the vocational areas of Construction, Early Years Care, Financial Services and Sport & Recreation, to enable a Pilot to be undertaken in 2005/06.
- During 2004/05, we also produced the assessment tasks to be used in the 2005 Scottish Survey of Achievement, which was announced by the Minister for Education and Young People in November 2004.

In partnership with other agencies, we made progress with a number of projects exploring the potential to use emerging technologies in learning and assessment during 2004/05.

- The Pass-IT research project was completed on schedule in December 2004. In addition to providing valuable research findings on the implications of changing the medium of assessment, Pass-IT helped to raise awareness and understanding of e-assessment in SQA and its centres.
- We secured almost £2m of funding from the European Social Fund and the Scottish Further Education Funding Council during 2004/05 to support work to 'enable' Higher National Qualifications.
- Jointly with Strathclyde University, we also received funding from the Joint Information Systems Committee to support the development of item banking technology.

During 2004/05, we continued our work to promote the international profile of Scottish education and training for the benefit of Scotland's learners and economy. As well as continuing international consultancy work to support the expansion of education and training infrastructure in developing countries, where funding is provided by international organisations, we also began building capacity for international awarding. This included a pilot project to establish HNDs as a recognised qualification in China, in partnership with the Chinese Centre for Scholarly Exchange (an agency of the Ministry of Education in China). The initial target for the pilot, was to recruit 500 students in 12 universities. The pilot has exceeded expectations and to date has involved 20 universities in China and 900 students.

Post balance sheet events

There were no significant post balance sheet events requiring disclosure.

Equal opportunities

SQA is committed to promoting equal opportunities amongst its staff and takes positive steps to avoid discrimination on the grounds of disability, sex, age, marital status, religion and ethnic origin.

Staff consultation

Considerable value is placed on consultation and staff are kept informed on matters affecting them as employees, including factors affecting the responsibilities, developments, activities and performance of SQA. This is achieved through seminars, newsletters, formal and informal staff briefings. Staff representatives are also consulted regularly on a wide range of matters affecting their current and future interests.

Prompt payment of suppliers

SQA observes the Better Payment Practice Code, details of which can be found at www.payontime.co.uk, and is committed to paying suppliers within 30 days of receipt of a valid invoice, where no other contract timetable applies. During the year to 31 March 2005 SQA paid 60% of all invoices within the terms of its payment policy.

Auditors

The Annual Financial Accounts have been audited by auditors appointed by the Auditor General for Scotland. The audit fee for the year ended 31 March 2005 was £43,150 (2004: £39,660).

Board of Management

A full listing of board members and observers is contained in the appendix to this foreword. A Register of Member's Interests can be found at www.sqa.org.uk.



Anton Colella
Accountable Officer and Chief Executive
21 September 2005

Board members and observers

Appendix

Board Members

Chairman

John McCormick
Sir John Ward CBE

*Appointed 1 September 2004
Resigned 31 August 2004*

Vice Chairman

Iain McMillan CBE

Appointed 28 October 2004

Members

Anthony Cassidy
Anton Colella (Accountable Officer and Chief Executive)

Judith Gillespie

Namasiku Liandu

Tenure of appointment finished 31 December 2004

Neil MacGowan

Linda McKay MBE

Iain McMillan CBE

Member until appointed Vice Chairman 28 October 2004

Margaret Nicol

Danus Skene

Tenure of appointment finished 31 December 2004

Gordon Smith CBE

Resigned 23 August 2004

Prof. Alex MacLennan

Appointed 14 February 2005

John Mitchell

Appointed 14 February 2005

Prof. John Simmons

Appointed 14 February 2005

Observers

Philip Rycroft

Statement of Board of Management and Chief Executive's responsibilities

Under Section 16 of the Education (Scotland) Act 1996 the Scottish Qualifications Authority is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Scottish Ministers. The accounts are prepared on an accruals basis and must show a true and fair view of the Scottish Qualifications Authority's state of affairs at the year end and of its income and expenditure, total recognised gains and losses, and cash flows for the financial year.

In preparing the accounts the Board of Management are required to:

- observe the accounts direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that SQA will continue in operation.

The Accountable Officer for the Scottish Executive Education Department has designated the Chief Executive of the Scottish Qualifications Authority as the Accountable Officer for SQA. His relevant responsibility for the propriety and regularity of the public finances, and for the keeping of proper records, are set out in the Memorandum to Accountable Officers of Other Public Bodies.

Statement of Internal Control

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

System of Internal Control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The key elements of the internal control environment which have been in place for the year ended 31 March 2005 and accords with guidance from Scottish Ministers include:

Board of Management

- The Board sets the strategic direction for the organisation through a robust process of review and approval of the Corporate and Business Plans which are submitted to Scottish Ministers.
- Progress against objectives within the Corporate and Business Plans are subject to review by the Board through the provision of regular financial and quarterly business performance reports.
- The Board receives periodic reports from the chairmen of its committees concerning any significant matters of governance and internal control.

Audit and Performance Committee

- The Audit and Performance Committee provides relevant advice within its remit to the Board on matters related to governance, the management of identified risks, and effectiveness of the internal control system.

Performance and Risk Management

- SQA's Executive and Business Management Teams review progress of the organisation using a monthly management review process which has been restructured to report the progress of each Directorate against their corporate/business objectives. In addition, the preparation and monitoring of business cases seeking external funding as part SQA's programme for change is reported to the Monthly Management Team meeting. The corporate planning and reporting processes required to support this performance management framework is provided by the Corporate Strategy and Performance Team which was introduced during 2004/05.
- Development of a risk management strategy and framework which will link existing reporting arrangements to the management of risk from operational to strategic levels.

Business Process and Internal Control Assurance

- Internal audit activity outsourced to PricewaterhouseCoopers, operating to the standards defined in the HM Treasury Government Internal Audit Standards (GIAS). The internal audit contract runs until end of financial year 2005/6 with provision to extend for a further year. The internal auditors continue to provide a clear and objective view of the effectiveness and efficiency of our business processes and monitor progress with the implementation of agreed actions to address matters of improvement. The internal audit strategic plan for 2003/4 to 2005/6 was agreed by the SQA's Executive Team and endorsed by SQA's Audit and Performance Committee. This plan is subject to ongoing review to ensure that the internal audit activity continues to focus on those areas of key risk and business priority, where changes in processes and systems are being implemented, and on a rotational basis, where assurance is required by the Board and the Executive Team. Although outsourced, this activity remains internally managed by the organisation's Business Manager for Corporate Strategy and Performance.
- Operational processes supporting certification of the main diet in August continue to be monitored by the Certification Planning Group which meets weekly to review a status report and risk register. Membership of the group consists of Executive staff, the Head of Communications and the Business Manager – Corporate Strategy and Performance. Status reports are shared with the Scottish Executive, SQA's staff and internal auditors. Reports on progress, including an annual progress report against the performance measures set and agreed with the Scottish Executive for the August diet of certification, are sent to meetings of the Board and the Audit and Performance Committee.

Review of effectiveness

As Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control and make the following observations.

From a governance and internal control perspective, the SQA Board and Executive Team were required to take pro-active steps to address a number of significant challenges during 2003/04. This programme of change and improvement has continued during 2004/05, with the following actions taken to further strengthen the internal control arrangements:

- The implementation across the organisation of the revised procurement processes and guidance developed during 2003/04. Management remains vigilant to any non-conformance of procedures.
- The implementation of revised arrangements for billing and cash collection which has resulted in improvements in customer relationship management, cash flow and debt management.
- SQA is now compliant with BS 7799 standards in Information Security Management System for certain aspects of its business relating to the Streetworks Qualifications Register and question papers. This means that we have adopted best practice in risk management with regards to information asset and security and that we have taken appropriate action to comply with legislation, particularly the Data Protection Act 1998.
- Phase 2 of business continuity planning to include all business areas is now complete and a consolidated test was conducted in April 2005/6. Further testing is planned.

The Board and Executive Team are committed to an on-going programme which will further enhance the framework of internal control. The programme of developments scheduled for 2005/06 will include:

- Further training to embed:
 - the risk management strategy and framework amongst staff
 - a robust business case prioritisation methodology based on risk ranking and cost/benefit analysis
- Adoption of a management framework based on the Excellence model. The system will include self-assessment reviews conducted in time to provide solutions to any gaps in SQA's business plan for the following year. The results of the self-assessment will also be used to show the extent to which SQA is compliant with the principles and characteristics of Best Value.
- Refinement of procurement procedures for the recruitment of consultants and subject experts
- Initiating work on replacing the existing Human Resources/Payroll and Finance systems and re-engineering the supporting processes to further streamline, strengthen and integrate these functions with our operational activities.

My overall review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports.



Anton Colella
Accountable Officer and Chief Executive
Scottish Qualifications Authority

Report on the Activities of the Audit and Performance Committee

Role of the Audit and Performance Committee

The main responsibilities of the Committee

The Audit and Performance Committee is an advisory body with no executive powers. This committee is established by the Board of Management, in accordance with the guidance on Audit Committees within the Scottish Public Finance Manual, and has very specific requirements. It is responsible, on behalf of the Board of Management, to ensure SQA is subject to independent and objective review of financial systems and reporting, to review the effectiveness of internal controls and risk management systems, to ensure compliance with law and codes of conduct and to monitor SQA's relationship with its auditors.

The Board of Management approved the revised terms of reference for the Audit and Performance Committee in March 2004. These standing orders can be found on our website www.sqa.org.uk within the Scheme of Delegation. These standing orders are reviewed annually.

Composition of the Audit and Performance Committee

The Audit and Performance Committee comprised Mr Iain McMillan (Convenor), Mr Tony Cassidy, Mrs Judith Gillespie and Mr Namasiku Liandu, all of whom were non-Executive members of the Board during the year.

The Convenor and members are appointed by the Board of Management and they, only, hold voting rights on the Committee.

Mr Namasiku Liandu's term of appointment concluded on 31 December 2004. Pending the appointment of a new Board member, this position remained vacant during the remainder of the financial year, to 31 March 2005. One meeting was held in this period, and the necessary quorum to transact business was fulfilled.

Meetings

The Audit and Performance Committee meets at least five times a year. During 2004/05 the Committee met on five occasions. The members of the Audit and Performance Committee during 2004/05 were:

<i>Name</i>	<i>Position</i>	<i>Retired</i> ¹	<i>Attendance</i>
Mr I McMillan	Convenor / Non-Executive member		5/5
Mr A Cassidy	Non-Executive member		4/5
Mrs J Gillespie	Non-Executive member		5/5
Mr N Liandu	Non-Executive member	31.12.04	4/5

¹ Please note that these columns will only be included if applicable to that year.

The Convenor of the Audit and Performance Committee reports annually to the Board of Management on the discharge of its duties. This is presented to the Board in the form of a letter, otherwise referred to as the annual statement of assurance to the Board. This letter recommends to the Board that the financial control risk management of SQA is adequate and effective.

The approved minutes of all Audit and Performance Committee meetings are also presented to the Board of Management following each meeting.

Main activities of the committee in the financial year 2004/05

External auditors

The Auditor General for Scotland (AGS) is SQA's statutory auditor. AGS appoint auditors to audit SQA's expenditures and receipts; examine their regularity and propriety; and arrange with the Department for the accounts to be laid before the Scottish Parliament. In addition, the auditors have access to the SQA's books and records by virtue of the Public Finance and Accountability (Scotland) Act 2000 for the purpose of carrying out examinations into the economy, efficiency and effectiveness with which the SQA has used its resources in discharging its functions. During 2004/05, the external audit was carried out in compliance with UK auditing standards, and provided an unqualified audit opinion on the accounts for year ended 31 March 2004.

The Audit and Performance Committee considered the Audit Opinion from Audit Scotland at its meeting on 30 August 2004 and, satisfied with the findings, approved the Report for submission to the Board of Management.

Internal audit function

The Audit and Performance Committee keeps under review the independence and objectivity of the appointment of internal auditors, PricewaterhouseCoopers (PwC). This appointment was only after rigorous checks, including competitive tender in accordance with EC and Scottish rules, and is for the period 2003-2006. Details of this year's fees are given in note 8 of page 30 of the Annual Accounts.

PwC operate to the standards defined in the Government Internal Audit Standards (GIAS). Although outsourced, this activity remains internally managed by the SQA's Business Manager for Corporate Strategy and Performance (CSP). Visits programmed for the current year were approved by the Audit and Performance Committee on 24 March 2004.

Representatives from PricewaterhouseCoopers and the Business Manager for CSP attend the meetings of the Committee.

Internal Audit provides management with an objective assessment as to whether system and controls are working effectively. The internal auditors also identify, categorise and prioritise risks. The CSP team manage the monitoring programme to ensure that where actions, non-compliances and risks have been identified and recommendations made, these are addressed within agreed timescales. All management responses are provided to PwC for validation at the follow-up review visits.

The follow-up report, previously provided by PwC, is now compiled by the CSP team and provided to the Audit and Performance Committee and PwC. This team also tracks current and outstanding recommendations on a monthly basis with a report being provided for inclusion in the Monthly Management Review report – this is discussed by SQA Business Managers and Executive Team. This approach ensures that SQA works in accordance with the key principles of Turnbull/Corporate Governance.

As a standing item for business at each meeting, the Audit and Performance Committee reviewed processes deemed critical to the Certification Action Plan for August certification.

During 2004/05 the following reports were undertaken by PwC and considered by the Audit and Performance Committee:

Core Financial Systems

Budgetary forecasting and control
Non-pay expenditure and accounts payable
Income and accounts receivable
Financial controls self-assessment

Corporate Governance

Overall arrangements for corporate governance

Risk Management

Implementation of the corporate plan
Business Continuity Planning

Information and Communications Technology

IT Helpdesk

Organisational Effectiveness Review

Appointments
Accreditation

Independent Auditor's report

To the members of the Scottish Qualifications Authority, the Scottish Parliament and the Auditor General for Scotland

I have audited the financial statements on pages 16 to 43 under the Education (Scotland) Act 1996. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 21 to 23.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Scottish Qualifications Authority, the Chief Executive and Auditor

As described on page 7 the Scottish Qualifications Authority and the Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of expenditure and receipts. The Scottish Qualifications Authority and the Chief Executive are also responsible for the preparation of the Foreword and other contents of the Annual Report. My responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Education (Scotland) Act 1996 and directions made thereunder and whether, 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Scottish Qualifications Authority has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 8 to 10 complies with Scottish Executive guidance on statements on the system of internal control. I report if, in my opinion, it does not comply with the guidance, or if the statement is misleading or inconsistent with other information I am aware of from my audit. I am not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Scottish Qualifications Authority's corporate governance procedures or its risk control procedures.

I read the other information contained in the Annual Report, and consider whether it is consistent with the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinions

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Scottish Qualifications Authority and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Scottish Qualifications Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error, and that, 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Financial statements

In my opinion the financial statements give a true and fair view of the state of affairs of Scottish Qualifications Authority at 31 March 2005 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Education Act 1996 and directions made thereunder.

Regularity

In my opinion, 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.

Signature



Arwel Roberts
Director, Central Government
Audit Scotland
18 George Street
Edinburgh
EH2 2QU

Date

29 September 2005

**Statement of Financial Activities
Year Ended 31 March 2005**

	Unrestricted Funds £'000	Restricted Funds £'000	2005 £'000	2004 £'000
Incoming resources				
Donations	12,616	-	12,616	17,978
Activities for generating funds	26,559	-	26,559	24,989
Government funding	4,673	1,811	6,484	5,883
Investment income	228	-	228	343
Other incoming resources	3,063	-	3,063	2,165
Total incoming resources	47,139	1,811	48,950	51,358
Resources expended				
Costs of generating funds	40,394	-	40,394	39,956
Costs of activities in furtherance of charity's objects	-	1,862	1,862	1,676
Support costs for above	7,985	-	7,985	8,143
Resources expended on managing and administering the charity	43	-	43	40
Total resources expended	48,422	1,862	50,284	49,815
Net (outgoing) / incoming resource before transfers	(1,283)	(51)	(1,334)	1,543
Gross transfers between funds	-	-	-	-
Net movement on funds	(1,283)	(51)	(1,334)	1,543
Total funds brought forward	(4,782)	-	(4,782)	(8,296)
Transfer from revaluation reserve of excess depreciation	178	-	178	184
Actuarial gains	145	-	145	1,787
Total funds carried forward	(5,742)	(51)	(5,793)	(4,782)

The notes on pages 21 to 43 form part of these accounts.

Income and expenditure account for the year to 31 March 2005

	Notes	2005 £'000	2004 £'000
Income			
Entry charges	3	26,559	24,989
Government funding	4(1)	6,484	5,883
Other income	5	3,063	2,165
		36,106	33,037
Expenditure			
Staff costs	6	19,292	20,106
Depreciation and other amounts written off tangible and intangible fixed assets		1,996	2,286
Other operating expenditure	7,8	28,961	27,273
		50,249	49,665
Operating (deficit) before interest		(14,143)	(16,628)
Investment income	9	228	343
Interest payable	10	(457)	(472)
Operating (deficit) after interest		(14,372)	(16,757)
Add back notional cost of capital	1(11)	422	322
Net (deficit) before additional funding		(13,950)	(16,435)
Scottish Executive additional funding	4(2)	12,616	17,978
Net (deficit)/surplus for the year		(1,334)	1,543
Revenue reserves brought forward	18	(4,782)	(8,296)
Transfer from revaluation reserve of excess depreciation	18	178	184
Actuarial gains	18	145	1,787
Revenue reserves carried forward		(5,793)	(4,782)

All operations are continuing.

The notes on pages 21 to 43 form part of these accounts.

Statement of total recognised gains and losses for the year to 31 March 2005

	Note	2005 £'000	2004 £'000
Net (deficit)/surplus for the year		(1,334)	1,543
Unrealised surplus on revaluation of fixed assets	18	2,489	193
Unrealised loss on revaluation of fixed assets	18	(295)	
Unrealised surplus on investments for unfunded pensions	18	7	8
Actuarial gains	18	145	1,787
Total recognised gains relating to the year		1,012	3,531

The notes on pages 21 to 43 form part of these accounts.

Balance sheet at 31 March 2005

	Notes	31 March 2005 £'000	31 March 2004 £'000
Fixed assets			
Intangible assets	11	124	226
Tangible assets	12	10,237	9,540
Investments	13	500	495
		<u>10,861</u>	<u>10,261</u>
Current assets			
Debtors	14	15,969	16,150
Cash at bank and in hand		390	-
		<u>16,359</u>	<u>16,150</u>
Creditors: amounts falling due within one year	15	(13,959)	(13,546)
Net current assets		<u>2,400</u>	<u>2,604</u>
Total assets less current liabilities		13,261	12,865
Creditors: amounts falling due after more than one year	16	(408)	(1,145)
Provisions for liabilities and charges	17	(638)	(689)
Defined benefit liability	23	(8,938)	(8,766)
Net assets		<u>3,277</u>	<u>2,265</u>
Capital and reserves			
Capital reserve	18	4,045	4,045
Revaluation reserves	18	5,025	3,002
Total capital reserves		<u>9,070</u>	<u>7,047</u>
Revenue reserve	18	3,145	3,984
Defined benefit liability reserve	18	(8,938)	(8,766)
		<u>3,277</u>	<u>2,265</u>

The Annual Financial Accounts were approved by the Board of Management on 21 September 2005 and signed on its behalf by



Anton Colella, Accountable Officer and Chief Executive
21 September 2005

Cash flow statement for the year to 31 March 2005

	Notes	2005		2004	
		£'000	£'000	£'000	£'000
Net cash flow from operating activities	21(1)		(11,965)		(18,736)
Returns on investments and servicing of finance					
Interest received		117		83	
Dividends received		7		33	
Gift aid received from Awards UK Limited		-		103	
Interest paid on secured loan		-		(10)	
Interest paid on loan from Awards UK Limited		(3)		(4)	
			121		205
Capital expenditure and financial investment					
Purchase of intangible fixed assets		(37)		(6)	
Purchase of tangible fixed assets		(480)		(1,166)	
Receipts from sale of tangible fixed assets		235		124	
Purchases of investments		-		(1,762)	
Receipts from sale of investments		-		3,063	
			(282)		253
Financing					
Additional funding from the Scottish Executive		12,616		18,322	
Repayments of secured loan		-		(100)	
Repayment of Awards UK Limited loan		(100)		-	
			12,516		18,222
Increase/(Decrease) in cash	21(2)		390		(56)

The notes on pages 21 to 43 form part of these accounts.

Notes to the accounts

1 Accounting policies

(1) Basis of preparation

The financial statements are prepared in accordance with applicable accounting standards under the historical cost convention, modified by the revaluation of fixed assets and in accordance with the Accounts Direction given by the Scottish Ministers which is reproduced as pages 44 to 47 of the accounts.

(2) Intangible assets

Software licences are disclosed as intangible assets in accordance with NDBP Guidance. The licences are amortised on a straight line basis over their expected useful lives, which will be no greater than the legal term of the licence.

(3) Tangible assets

Land and buildings are valued at existing use value on the basis of a professional valuation in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual at regular intervals. Between valuations current cost is reflected by applying an inflation index to brought forward values. The land and buildings were valued as at 31 March 2005. It is considered that the effect of revaluing other fixed assets as at 31 March 2005 would make no material difference to the results for the year or to the financial position at the year end.

(4) Depreciation

Depreciation is provided on all tangible fixed assets, other than land, on a straight line basis at rates calculated to write off the cost, less estimated residual value, over their expected useful lives. Fixed assets are depreciated as follows:

Buildings	15 - 40 years
Computer equipment	2 - 7 years
Office equipment, motor vehicles and furniture	2 - 7 years
Internal improvements to office premises	10 years

(5) Investments

An investment in a joint venture company is held on the balance sheet at cost. The results are not incorporated in SQA's accounts as they are not material. However, gift aid payments received from the company are included in investment income.

Investments in stocks and shares are stated at market value. Revaluation gains are taken to revaluation reserves in the balance sheet. Revaluation losses are taken to revaluation reserves to the extent to which they reverse previously recognised gains and thereafter to the income and expenditure account.

Notes to the accounts (cont.)

1 Accounting policies (cont.)

(6) Leases

Rentals payable under operating leases are charged to the income and expenditure account on a straight line basis over the length of the lease. There are no assets held under finance leases.

(7) Government grants

Government grants of a revenue nature are credited to the income and expenditure account in the year to which they relate. Grants to fund capital expenditure are treated as deferred income and released to the income and expenditure account over the lives of the assets funded.

(8) Pensions

All eligible employees are entitled to membership of the Local Government Superannuation Scheme (LGSS). New employees who are already members of the Scottish Executive Teachers' Superannuation Scheme (TSS) are entitled to maintain their membership of that scheme. Employer's contributions to the TSS are accounted for as they fall due. Employer's contributions to the LGSS are accounted for under the requirements of Financial Reporting Standard 17. (See note 23).

(9) Provisions

SQA is required to meet the additional costs of benefits beyond the normal pension scheme benefits in respect of employees who retire early. The Authority provides in full for these costs when the early retirement has been agreed.

Other provisions for liabilities or charges are recognised in accordance with the criteria and measurement bases of FRS 12 – Provisions, Contingent Liabilities and Contingent Assets.

(10) Income recognition

Income from entry charges for core awards is recognised as follows:

- a Externally assessed awards: income is recognised on completion of the course, and any income charged in advance is released to the income and expenditure account in the financial year during which the course is completed.
- b Internally assessed awards: income is recognised proportionately over the average duration of the course, except for National Courses where it is based on the level of moderation carried out.

Income from awards containing both externally and internally assessed units is split and the components recognised as above. Commercial income is recognised in the period to which it relates.

Notes to the accounts (cont.)

1 Accounting policies (cont.)

(11) Notional cost of capital

A notional charge to bring interest payable up to a 3.5% (2004: 3.5%) return on capital employed has been included in these accounts. SQA's entry and other charges do not include amounts to cover notional interest. This is not in strict accordance with Government guidance in the "Fees and Charges Guide". As SQA's charges are paid predominantly by other public sector bodies, and do not distort competition, the Scottish Executive has indicated that it is content with this basis.

(12) Foreign currency transactions

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the balance sheet date. Any gain or loss arising on the restatement of such balances is taken to the income and expenditure account.

Notes to the accounts (cont.)

2 Segmental analysis

	Awarding and related activities £'000	Accreditation £'000	5 – 14 assessment programme £'000	Total £'000
2005				
Income	29,622	1,369	442	31,433
Expenditure	(48,387)	(1,420)	(442)	(50,249)
(Deficit)/surplus	(18,765)	(51)	-	(18,816)
Development funding	4,673	-	-	4,673
Operating (deficit)/surplus before interest	(14,092)	(51)	-	(14,143)
Net assets	3,146	57	74	3,277
2004				
Income	27,154	1,262	414	28,830
Expenditure	(47,989)	(1,262)	(414)	(49,665)
(Deficit)/surplus	(20,835)	-	-	(20,835)
Development funding	4,207	-	-	4,207
Operating (deficit)/surplus before interest	(16,628)	-	-	(16,628)
Net assets	2,170	45	50	2,265

Awarding and related activities

SQA's principal activity is awarding, maintaining and developing qualifications within the Scottish Credit and Qualifications Framework. The level of entry charges are agreed by the Scottish Ministers each year after consultation with stakeholder representatives. Grant funding may be available for development work within this service block.

Accreditation activities

Accreditation activities are grant funded by the Scottish Executive. These functions of SQA are separate from its awarding body role and as such require separate funding with no cross subsidy from awarding activities.

5 – 14 assessment programme

The 5 – 14 assessment programme is funded by the Scottish Executive. SQA is required to account separately for expenditure in this area. The level of grant is based on annual estimates and is agreed each year.

Notes to the accounts (cont.)

3 Entry charges

	2005	2004
	£'000	£'000
National qualifications:		
National Courses and units	11,679	10,410
SCE Standard Grade	8,730	8,647
Late Appeal Charges	6	9
	<hr/>	<hr/>
	20,415	19,066
Higher National qualifications	4,052	3,985
Scottish Vocational qualifications	2,092	1,938
	<hr/>	<hr/>
	26,559	24,989
	<hr/>	<hr/>

4 Government funding

(1) Government funding

Scottish Executive 5 - 14 programme	442	414
Scottish Executive accreditation	1,369	1,262
Scottish Executive development	3,233	3,093
Other government development	678	-
Scottish Executive deferred capital funding	762	1,114
	<hr/>	<hr/>
	6,484	5,883
	<hr/>	<hr/>

(2) Additional funding

Total additional funding received		12,616	18,322
Additional funding deferred	16(1)	-	(344)
		<hr/>	<hr/>
		12,616	17,978
		<hr/>	<hr/>

Notes to the accounts (cont.)

5 Other income

	2005	2004
	£'000	£'000
Consultancy, secondments and research	337	278
Street Works Qualifications Register	364	365
Commercial testing services	890	691
Sale of publications	150	121
Royalty income	287	226
Miscellaneous income	1,035	484
	<hr/>	<hr/>
	3,063	2,165
	<hr/>	<hr/>

6 Staff costs, numbers and remuneration

(1) Staff costs

Salaries and wages	13,916	14,031
Seconded staff	983	834
Seasonal and agency staff	1,254	1,399
Social security	1,123	1,122
Superannuation	126	108
Defined benefit operating cost	1,861	2,513
Early retirement	(26)	38
Severance & compensation	55	61
	<hr/>	<hr/>
	19,292	20,106
	<hr/>	<hr/>

Income totalling £137,000 was received during the year for SQA staff seconded out to other organisations. This is included within miscellaneous income (note 5).

Notes to the accounts (cont.)

6 Staff costs, numbers and remuneration (cont.)

(2) Staff numbers

	2005	2004
	Number	Number
Annual full time equivalents:		
Awarding and related activities		
Permanent	552	557
Fixed term	14	15
Secondees	24	16
Seasonal	-	11
Agency	75	68
	<hr/> 665	<hr/> 667
Accreditation	22	23
5 – 14 assessment programme	6	6
	<hr/> 693	<hr/> 696

Notes to the accounts (cont.)

6 Staff costs, numbers and remuneration (cont.)

(3) Disclosure of remuneration

The salary and pension entitlements earned during the year by SQA's Senior Staff in the roles noted are as follows:

		Age	Salaries and other payments £	Benefits in kind £
Chairman				
John McCormick	Appointed 01 Sept 04	60	7,950	-
Sir John Ward CBE	Resigned 31 Aug 04	64	5,186	-
Chief Executive				
Anton Colella		43	108,049	158
Non-Executive Board members				
Anthony Cassidy		60	4,174	-
Judith Gillespie		58	4,174	-
Namasiku Liandu	Tenure of appointment finished 31 Dec 04	46	3,124	-
Neil MacGowan		48	4,174	-
Linda McKay MBE		53	4,174	-
Iain McMillan CBE	Appointed Vice Chairman 28 Oct 04	53	4,174	-
Margaret Nicol		56	4,174	-
Danus Skene	Tenure of appointment finished 31 Dec 04	61	3,124	-
Gordon Smith	Resigned 23 Aug 04	57	1,723	-
Prof. Alex MacLennan	Appointed 14 Feb 05	52	528	-
John Mitchell	Appointed 14 Feb 05	60	528	-
Prof. John Simmons	Appointed 14 Feb 05	57	528	-
Directors				
Maidie Cahill		48	70,834	-
Tom Drake	Appointed 08 Apr 04	59	72,678	17
Ron Sylvester	Appointed 15 May 04	54	71,190	14
John Young	Appointed 08 Apr 04	57	75,920	334

Benefits in kind are taxable profit on business mileage.

In prior years only the Chairman of the Board was entitled to receive remuneration. However, this was amended by The Scottish Qualifications Authority Act 2002 enabling all board members to receive remuneration. The remuneration paid during the financial year is disclosed above. Board payroll, travelling and subsistence costs are included in Board and Committee expenses in note 7. Board members are listed in the Appendix to the Foreword on page 6.

Notes to the accounts (cont.)

6 Staff costs, numbers and remuneration (cont.)

(3) Disclosure of remuneration (cont.)

The cost of appointing Ron Sylvester as interim Finance Director was payable to Randl Management Services. This cost is included within professional fees. Ron Sylvester was appointed as Finance Director on 15 May 2004. The cost of his salary since that date is shown above.

The pension entitlements earned during the year by SQA's Senior Staff in the roles noted are as follows:

	Age	Real increase in pension £	Total accrued pension at 31 March 2005 £	Cash equivalent transfer value at 31 March 2004 £	Cash equivalent transfer value at 31 March 2005 £	Real increase in cash equivalent transfer value £
Chief Executive						
Anton Colella	43	1,937	4,338	247,020	257,224	2,300
Directors						
Maidie Cahill	48	818	2,087	13,442	23,259	9,387
Tom Drake	59	2,659	14,057	384,836	396,437	(714)
John Young	57	1,095	2,197	376,269	380,874	7,436

Maidie Cahill is an ordinary member of the Strathclyde Local Government Superannuation Scheme. Anton Colella, Tom Drake and John Young are ordinary members of the Scottish Executive Teachers' Superannuation Scheme. (See note 23).

Ron Sylvester is not a member of either Superannuation Scheme.

(4) Additional voluntary disclosures of remuneration

In addition to the above statutory disclosures, SQA has opted to disclose additional voluntary information on the remuneration of other higher paid staff.

Annual remuneration	Number of staff
£50,000 - £59,999	4

Notes to the accounts (cont.)

7 Other operating expenses

		2005	2004
		£'000	£'000
Staff related costs	7(1)	2,104	2,155
Board and committee expenses		20	34
Appointee release compensation		1,029	1,099
Appointee fees		10,342	9,808
Appointee expenses and related costs		2,090	1,936
Business development specialists' fees and expenses		4,477	3,266
Question paper production and printing		502	521
Assessment stationery and certificates		310	461
Property expenses		1,493	1,563
Equipment and supplies		984	1,033
IT costs		1,607	1,573
Postage and telephones		1,492	1,916
PR, marketing and publications		1,661	1,485
Miscellaneous		850	423
		<hr/>	<hr/>
		28,961	27,273

(1) Staff related costs

Staff travel		821	688
Staff subsistence		132	105
Staff relocation		-	(5)
Catering for internal and examination procedures meetings		206	191
Staff training		415	377
Miscellaneous staff costs		530	799
		<hr/>	<hr/>
		2,104	2,155

8 Income and expenditure items

Included in total expenditure are the following costs which are required to be disclosed:

External audit fees	43	40
Internal audit fees	95	104
Bad and doubtful debts	94	6
Foreign exchange loss	-	5
Property rentals and service charges	298	362
Hire of office and computer equipment	467	181

Notes to the accounts (cont.)

9 Investment income

	2005 £'000	2004 £'000
Income from investments for unfunded pensions	7	23
Gift aid from Awards UK Limited	104	237
Other interest income	117	83
	228	343

10 Interest payable

Interest on secured loan	-	8
Interest payable to Awards UK Limited	3	4
Finance cost of discounted SQA unfunded pensions provision	20	16
Defined benefit finance cost	12	122
Notional interest on capital employed at 3.5% (2004: 3.5%)	422	322
	457	472

11 Intangible assets

	Software Licences £'000
Cost:	
At 1 April 2004	427
Additions	37
At 31 March 2005	464
Amortisation:	
At 1 April 2004	201
Charge for year	139
At 31 March 2005	340
Net book amount:	
At 31 March 2005	124
At 31 March 2004	226

Software licences are disclosed as intangible assets in accordance with government accounting practice.

The licences are amortised on a straight line basis over their expected useful lives.

Notes to the accounts (cont.)

12 Tangible assets

	Feuhold land	Feuhold buildings	Leasehold building improve- ments	Vehicles, office and printing equipment	Computer hardware	Computer software	Construction in progress	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation:								
At 1 April 2004	1,795	5,470	224	1,327	3,362	2,424	54	14,656
Revaluation adjustment	(495)	1,795	-	-	-	-	-	1,300
Additions	-	40	-	112	97	180	71	500
Disposals	-	(155)	-	(73)	(1,445)	(72)	-	(1,745)
Transfers	-	-	-	-	-	105	(105)	-
At 31 March 2005	1,300	7,150	224	1,366	2,014	2,637	20	14,711
Accumulated depn:								
At 1 April 2004	-	282	152	710	2,369	1,603	-	5,116
Revaluation adjustment	-	(694)	-	-	-	-	-	(694)
Charge for year	-	432	18	190	524	458	35	1,657
Disposals	-	(20)	-	(70)	(1,443)	(72)	-	(1,605)
Transfers	-	-	-	-	-	35	(35)	-
At 31 March 2005	-	-	170	830	1,450	2,024	-	4,474
Net book amount:								
At 31 March 2005	1,300	7,150	54	536	564	613	20	10,237
At 31 March 2004	1,795	5,188	72	617	993	821	54	9,540

SQA's premises at Hanover House, 24 Douglas Street, Glasgow and Ironmills Road, Dalkeith were valued as at 31 March 2005 on an existing use basis by GVA Grimley LLP, an independent valuer, as follows:

	Glasgow £'000	Dalkeith £'000
Land	900	400
Buildings	3,450	3,700
Existing use value	4,350	4,100
Market value	4,350	2,500

The difference between the existing use value and market value of Dalkeith is due to the fact that the property in Dalkeith is well suited to SQA's operational requirements. It is unlikely that in its current configuration, a suitable tenant/owner occupier would be found if the property became vacant.

Notes to the accounts (cont.)

12 Tangible assets (cont.)

The comparable amounts on a historical cost basis for feuhold land and buildings at the balance sheet date are:

	Feuhold land £'000	Feuhold buildings £'000
Historical cost	250	7,015
Accumulated depreciation	-	3,405
Net book amount	<u>250</u>	<u>3,610</u>

As SQA is an NDPB, in the event of the sale of either premise, all proceeds must be remitted to the Scottish Executive.

13 Investments

		31 March 2005 £'000	31 March 2004 £'000
Awards UK Limited	13(1)	200	200
Investments for unfunded pensions	13(2)	300	295
		<u>500</u>	<u>495</u>

(1) Awards UK Limited

SQA holds 50% of the issued share capital of Awards UK Limited, in the form of 200,000 £1 "B" ordinary shares. London Qualifications Limited (formally Edexcel Enterprises Limited), a wholly owned subsidiary of Edexcel Foundation, holds the other 50% in the form of 200,000 £1 "A" ordinary shares.

Awards UK is registered in England, and is run as a joint venture, with the object of awarding SVQs and NVQs as a one stop service for customers who wish to obtain the qualifications awarded by both parties, without the inconvenience of two different administrative systems.

Awards UK Limited made a profit of £213,000 (2004: profit of £269,000) in the year, and has aggregate capital and reserves at 31 March 2005 of £500,000 (2004: £400,000). These results have not been incorporated in SQA's accounts as they are not material. However the gift aid payment received from Awards UK has been included in investment income (see note 9).

Notes to the accounts (cont.)

13 Investments (cont.)

(2) Investments for unfunded pensions

	British government securities £'000	Investment deposit account £'000	Total £'000
Market value at 1 April 2004	289	6	295
Additions	-	7	7
Disposals	-	(9)	(9)
Revaluation	7	-	7
Market value at 31 March 2005	296	4	300

14 Debtors

	31 March 2005 £'000	31 March 2004 £'000
Trade debtors	2,322	3,938
Amounts owed by Awards UK Limited	37	21
Other debtors	202	75
Prepayments and accrued income	13,408	12,116
	15,969	16,150

Included within trade debtors are the following intra-government balances:

Other central government bodies	844	119
Local authorities	233	40
NHS trusts	6	11
	1,083	170

Included in other debtors are loans to staff amounting to £62,000 (2004: £50,000). Of this £2,000 was due from a director (see note 25).

Notes to the accounts (cont.)

15 Creditors: amounts falling due within one year

		31 March 2005 £'000	31 March 2004 £'000
Trade creditors		493	1,502
Income tax and social security		2,630	2,760
Loan from Awards UK Limited		-	100
Other creditors		362	55
Accruals		1,864	1,840
Deferred income	16(1)	8,610	7,289
		<hr/> 13,959	<hr/> 13,546

Included within trade creditors is £35,000 (2004: £50,000) due to local authorities.

16 Creditors: amounts falling due after more than one year

Deferred income	16(1)	408	1,145
		<hr/> 408	<hr/> 1,145

(1) Deferred income

Opening deferred income		8,434	8,576
Deferred additional funding	4(2)	-	344
Deferred additional funding released to income in year		(762)	(1,104)
Other deferred income movements		1,346	618
		<hr/> 9,018	<hr/> 8,434
Closing deferred income			
Deferred income falling due within one year		8,610	7,289
Deferred income falling due after more than one year		408	1,145
		<hr/> 9,018	<hr/> 8,434

Notes to the accounts (cont.)

17 Provisions

	SQA unfunded pensions £'000	Early retirements & severance £'000	VAT	Total £'000
At 1 April 2004	294	395	-	689
Provided in year	52	9	285	346
SQA unfunded pensions paid	(13)	-	-	(13)
Transfers of liability paid in the year	-	(404)	-	(404)
Finance cost of discounted provision	20	-	-	20
	<hr/>			
At 31 March 2005	353	-	285	638
	<hr/>			

The provision for SQA unfunded pensions, represents the current capital cost of future unfunded pensions payable to SQA, SEB and SCOTVEC pensioners who were granted early retirement. The value of the provision has been calculated on the basis of transferring the unfunded pension liability to a third party.

During 2002/03, as part of the SQA's organisational development strategy, an early retirement program was arranged. The early retirement and severance provision represents the cost of those retirements agreed. During the year, a total of £404,000 was transferred to the LGSS and TSS.

SQA provide services to a number of countries abroad. During 2004/05, it was identified that SQA should have been registered for VAT locally and charging VAT on services provided. A provision has been included to cover the unpaid VAT and associated penalties.

Notes to the accounts (cont.)

18 Reserves

	Capital reserve	Revaluation reserves			Revenue reserves			Total reserves
		Land and buildings	Investments for unfunded pensions	Total	Revenue reserve	Defined benefit liability reserve	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2004	4,045	2,994	8	3,002	3,984	(8,766)	(4,782)	2,265
Revaluation surplus	-	2,489	7	2,496	-	-	-	2,496
Revaluation loss	-	(295)	-	(295)	-	-	-	(295)
Realised depreciation on	-	(178)	-	(178)	178	-	178	-
Movement on pension deficit	-	-	-	-	317	(317)	-	-
Actuarial gain	-	-	-	-	-	145	145	145
Deficit for year	-	-	-	-	(1,334)	-	(1,334)	(1,334)
At 31 March 2005	4,045	5,010	15	5,025	3,145	(8,938)	(5,793)	3,277

19 Commitments

Annual commitments under operating leases are as follows:

		2005 £'000	2004 £'000
Leases of office equipment expiring:	within 1 year	-	10
	within 2 to 5 years	340	331
Leases of land and buildings expiring:	within 2 to 5 years	261	-
	in over 5 years	-	261

20 Contingent liabilities

As SQA is an NDPB, in the event of the sale of either premise, all proceeds must be remitted to the Scottish Executive.

Notes to the accounts (cont.)

21 Notes to cash flow statement

(1) Reconciliation of operating deficit to net operating cash flows

	2005	2004
	£'000	£'000
Operating (deficit) before interest	(14,143)	(16,628)
Depreciation	1,796	2,286
Loss on revaluation of fixed assets	200	-
Release of deferred capital grant	(762)	(1,104)
(Gain)/loss on disposal of fixed assets	(167)	84
Gain on disposal of investments	-	(8)
Decrease/(increase) in debtors	338	(1,201)
Increase in creditors	539	333
Decrease in provisions	(83)	(3,426)
Increase in defined benefit liability	317	928
	<hr/>	<hr/>
Net cash flow from operating activities	(11,965)	(18,736)

(2) Reconciliation of movement in cash and overdrafts

Closing cash balance	390	-
Less: opening cash balance	-	(56)
	<hr/>	<hr/>
Increase / (Decrease) in cash	390	(56)

(3) Reconciliation of cashflow to net debt

Increase / (Decrease) in cash	390	(56)
Repayment of secured loan	-	100
Repayment of Awards UK Limited loan	100	-
	<hr/>	<hr/>
Movement in net debt	490	44
Net debt at end of previous year	(100)	(144)
	<hr/>	<hr/>
Net funds/(debt) at end of year	390	(100)

Notes to the accounts (cont.)

21 Notes to cash flow statement (cont.)

(4) Analysis of movement in net debt

	1 April 2004 £'000	Cash flows £'000	31 March 2005 £'000
Cash, overdrafts and liquid resources	-	390	390
Debt due within one year	(100)	100	-
Debt due after one year	-	-	-
	<hr/>	<hr/>	<hr/>
	(100)	490	390

22 Post balance sheet events

There were no significant post balance sheet events requiring disclosure.

23 Pensions

All eligible employees are entitled to membership of the Strathclyde Local Government Superannuation Scheme (LGSS). New employees who are already members of the Scottish Executive Teachers Superannuation Scheme (TSS) are entitled to maintain their membership of this scheme.

The LGSS is a group defined benefit scheme covering employees of the former Strathclyde Regional Council and other admitted bodies and responsibility for the management of the fund rests with the Strathclyde Pension Fund administered by Glasgow City Council. The TSS is a group defined benefit scheme covering teachers and related occupations and is the responsibility of the Scottish Public Pensions Agency. This scheme is unfunded. These arrangements comply with the guidance contained in "Non-Departmental Public Bodies: A guide for Departments".

Both schemes provide benefits based on final pensionable pay, and contributions during the year totalled £1,599,000 (2004: £1,524,000), consisting of £1,473,000 (2004: £1,416,000) to the LGSS Scheme and £126,000 (2004: £108,000) to the TSS Scheme. Included within creditors are outstanding contributions of £180,000 (2004: £165,000) due to the LGSS scheme and £17,000 (2004: £16,000) due to the TSS scheme at 31 March 2005.

Actuarial valuations for both schemes are prepared regularly with the last LGSS valuation to 2002 and the last TSS valuation being to 2001. Details of these valuations can be obtained from published reports.

The SQA is notified by both responsible bodies of the employer's contribution rates for each scheme. The LGSS, based on the 2002 valuation, have set rates based on employees' salaries as follows: 2004/05: 14.4% and 2005/06: 15.0%. The TSS, based on the 2001 valuation, has set rates at: 12.5% from 1 October 2004 onwards.

The Scottish Public Pensions Agency has not provided information to enable SQA to identify its share of the liabilities of the TSS at 31 March 2005.

Notes to the accounts (cont.)

23 Pensions (cont.)

The following information relates to the Strathclyde Local Government Superannuation Scheme.

The financial assumptions used to calculate scheme liabilities under FRS 17 were:

	31 March 2005 % per annum	31 March 2004 % per annum
Price increases	2.9%	2.9%
Salary increases	4.4%	4.4%
Pension increases	2.9%	2.9%
Discount rate	5.4%	5.5%

The assets in the scheme and expected rate of return were:

SQA share of assets	Value at 31 March 2005 £'000	Value at 31 March 2004 £'000
Equities	25,531	21,684
Bonds	4,619	4,224
Properties	3,309	2,531
Cash	1,098	1,236
Total market value of fund assets	34,557	29,675
	Long term return % per annum 31 March 2005	Long term return % per annum 31 March 2004
Equities	7.7%	7.7%
Bonds	4.8%	5.1%
Properties	5.7%	6.5%
Cash	4.8%	4.0%

Notes to the accounts (cont.)

23 Pensions (cont.)

The following amounts at 31 March 2005 and 31 March 2004 were measured in accordance with the requirement of FRS 17.

SQA share of assets and liabilities	Value at 31 March 2005 £'000	Value at 31 March 2004 £'000
Estimated SQA share of fund assets	34,557	29,675
Present value of SQA share of scheme liabilities	(43,264)	(38,275)
Present value of SQA share of unfunded liabilities	(231)	(166)
Net pension deficit	(8,938)	(8,766)

Analysis of amount recognised in the statement of total recognised gains and losses	Year to 31 March 2005 £'000	Year to 31 March 2004 £'000
Actual return less expected return on pension scheme assets	1,142	4,160
Experience gains and losses arising on the scheme liabilities	(67)	56
Changes in financial assumptions underlying the present value of the scheme liabilities	(930)	(2,429)
Actuarial gain recognised in STRGL	145	1,787

Movement in surplus/deficit during the year	Year to 31 March 2005 £'000	Year to 31 March 2004 £'000
Deficit in scheme at beginning of year	(8,766)	(9,625)
Movement in year:		
Current service cost	(1,861)	(1,633)
Past service cost	-	(880)
Contributions	1,543	1,691
Contributions in respect of unfunded benefits	13	16
Net return on assets	(12)	(122)
Actuarial gain	145	1,787
Deficit in scheme at end of year	(8,938)	(8,766)

Notes to the accounts (cont.)

23 Pensions (cont.)

History of experience gains and losses	Year to 31 March	Year to 31 March
	2005	2004
	£'000	£'000
Difference between the expected and actual return on assets	1,142	4,160
Value of assets	34,557	29,675
Percentage of assets	3.3%	14.0%
Experience (losses)/gain on liabilities	(67)	56
Present value of liabilities	43,494	38,440
Percentage of the present value of liabilities	(0.2%)	0.1%
Actuarial gain in STRGL	145	1,787
Present value of liabilities	43,494	38,440
Percentage of present value of liabilities	0.3%	4.6%

24 Charitable status

SQA is a recognised Scottish Charity, with charity number SC026097.

25 Related parties

SQA is a Non-Departmental Public Body (NDPB) sponsored by the Scottish Executive Education Department (SEED).

The SEED is regarded as a related party. During the year SQA has had various material transactions with the Department. At the year end, £98,000 (2004:£40,000) was owed to SQA. In addition, SQA has had material transactions with the Scottish Executive Enterprise and Lifelong Learning Department (SEELLD). At the year end, £641,000 (2004: £71,000) was owed to SQA. Grant funding received from the Scottish Executive is disclosed in note 4.

During the year SQA made cost recharges and sold goods and services in the ordinary course of business totalling £287,000 (2004: £179,000) to Awards UK Limited, a 50% owned joint venture company (see note 13). SQA had also received a loan of £100,000 from Awards UK Limited at a commercial rate of interest, incurring an interest charge of £3,000 during the year. The loan was fully repaid during the year.

During the financial year 2002/03, Anton Colella, Chief Executive, received a loan of £10,000 from SQA. The loan was made in accordance with SQA policy on providing low interest loans to staff designated as essential car users. It is subject to interest at 4.75% APR, and is repayable over a three year period or on leaving the organisation if earlier. A balance of £2,000 was outstanding at 31 March 2005.

Notes to the accounts (cont.)

25 Related parties (cont.)

During the year SQA levied entry charges totalling £346,000 to Glasgow College of Nautical Studies. These transactions were made in the normal course of business. At the year end £22,000 was owed to SQA. This organisation is a related party as SQA Chief Executive, Anton Colella, holds the position of board member there.

During the year SQA levied entry charges totalling £17,000 to IBM (UK) Ltd. At the year end £40,000 was owed to SQA. Additionally, £71,000 of charges were incurred by SQA for the provision of goods and services by IBM (UK) Ltd. All of these transactions were made in the normal course of business. IBM (UK) Ltd was a related party during the year as Gordon Smith, former SQA Board Member, holds the post of Director there.

During the year SQA levied entry charges totalling £213,000 to Jewel and Esk Valley College. These transactions were in the normal course of business. At the year end, £14,000 was owed to SQA. Jewel and Esk Valley College is a related party as SQA Directors, Ron Sylvester and Tom Drake, hold positions on the Board of Management at the College.

Additionally, £10,000 of charges from Randl Management Services was incurred by SQA for provision of the services of Ron Sylvester acting as SQA's Interim Finance Director. This transaction was made in the normal course of business. Randl Management Services is a related party as SQA Director, Ron Sylvester, holds the post of sole proprietor there.

During the year SQA levied entry charges totalling £180,000 to Falkirk College. These transactions were in the normal course of business. At the year end, £30,000 was owed to SQA. Falkirk College is a related party as SQA Board Member, Linda McKay, holds the post of Principal there.

During the year SQA levied entry charges totalling £287,000 to Stevenson College. These transactions were in the normal course of business. At the year end, £3,000 was owed to SQA. Stevenson College is a related party as SQA Director, Maidie Cahill, holds the position of board member there.

During the year, SQA incurred charges of £31,000 from Heriot Watt University. All these transactions were made in the normal course of business. Heriot Watt University is a related party as SQA Board Member, Prof. John Simmons, holds the post of Vice-Principal there.

Apart from the above, none of the Board members or key managerial staff of SQA has undertaken any material transactions with SQA during the year.



SCOTTISH QUALIFICATIONS AUTHORITY

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of Section 16 of the Education Scotland Act 1996, hereby give the following direction.

2. The statement of accounts which it is the duty of the Scottish Qualifications Authority to prepare in respect of the financial year ended 31 March 2002 and in respect of any subsequent financial year, shall comprise:

- 2.1 a foreword;
- 2.2 an income and expenditure account;
- 2.3 a balance sheet;
- 2.4 a cash flow statement;
- 2.5 a statement of total recognised gains and losses;
- 2.6 a statement of accountable officer's responsibilities; and
- 2.7 a statement on the system of internal control.

including such notes as may be necessary for the purposes referred to in the following paragraphs.

3. The statement of accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the end of the financial year. Subject to this requirement, the accounts shall be prepared in accordance with:

- 3.1 the accounting and disclosure requirements of the Companies Act for the time being in force; and
- 3.2 generally accepted accounting practice in the UK, including accounting standards issued or adopted by the Accounting Standards Board; and
- 3.3 guidance which Scottish Ministers may issue from time to time in respect of accounts which are required to give a true and fair view;
- 3.4 the accounting and disclosure requirements given in "Executive NDPBs: Annual Reports and Accounts Guidance", as amended or augmented from time to time;

insofar as these are appropriate to the Scottish Qualifications Authority and are in force for the financial year for which the statement of accounts is to be prepared.

4. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.

5. The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:

5.1 fixed assets at their value to the business by reference to current costs; and

5.2 stocks valued at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

6. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 3 May 2001 is hereby revoked.

A handwritten signature in black ink, appearing to read 'Frances Gordon', is written in a cursive style.

Signed by the authority of the Scottish Ministers

Dated 4 October 2002

SCHEDULE 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply.
2. The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the equivalent information relating to the Scottish Qualifications Authority shall be contained in the foreword.
3. When preparing its income and expenditure account the Scottish Qualifications Authority shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
4. When preparing its balance sheet the Scottish Qualifications Authority shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act.
5. The Scottish Qualifications Authority is not required to provide the additional information required by paragraph 33(3) of Schedule 4 to the Companies Act.
6. The foreword and balance sheet shall be signed and dated by the Scottish Qualifications Authority's Accountable Officer.

Accounting Standards

7. The Scottish Qualifications Authority is not required to include a note showing historical cost profits and losses as described in FRS3.
8. The Scottish Qualifications Authority shall not adopt the Financial Reporting Standard for Smaller Entities.

SCHEDULE 2

ADDITIONAL DISCLOSURE REQUIREMENTS

1. The foreword shall, *inter alia*:
 - 1.1 state that the statement of accounts have been prepared in a form directed by the Scottish Ministers in accordance with Section 16 of the Education Scotland Act 1996.
 - 1.2 include a brief history of the Scottish Qualifications Authority and its statutory background, including its status as a Scottish charity under the provisions of Section 1(7) of the Law Reform and Miscellaneous Provisions (Scotland) Act 1990.
2. The notes to the accounts shall include:
 - 2.1 details of any key corporate financial targets set by the Scottish Ministers together with an indication of the performance achieved, and
 - 2.2 details of the pension arrangements operated by the Scottish Qualifications Authority and confirmation that the scheme accords with the guidance contained in "Non-Departmental Public Bodies: A guide for Departments".