

**THE SCOTTISH QUALIFICATIONS AUTHORITY:
MANAGEMENT STATEMENT AND FINANCIAL MEMORANDUM**

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1. INTRODUCTION

1.1 This document

1.1.1 This management statement and financial memorandum has been drawn up by the Scottish Executive Education Department (the Department) in consultation with the Scottish Qualifications Authority (SQA), Hanover House, 24 Douglas Street, Glasgow G2 7NQ. The Education Department is the sponsoring department of the SQA and carries out sponsorship responsibilities in consultation with other departments that have an interest in SQA matters, most notably Enterprise and Lifelong Learning Department.

1.1.2 The document sets out the broad framework, within which the SQA will operate, in particular:

- the rules and guidelines relevant to the exercise of the SQA's functions, duties and powers;
- the conditions under which any public funds are paid to the SQA;
- how the SQA is to be held to account for its performance.

1.1.3 The SQA must satisfy the conditions and requirements set out in this document, together with such other conditions as Scottish Ministers may from time to time impose, in order to continue to be entitled to grant and any other form of Exchequer subvention.

1.1.4 The terms and conditions set out in this memorandum may be supplemented by guidelines or directions issued by Scottish Ministers in respect of the exercise of any individual functions, powers and duties of the SQA.

1.1.5 The SQA or Scottish Ministers may propose amendments to the document at any time. The Department will determine what changes, if any are to be incorporated and shall be entitled to insist upon same. Legislative changes will take precedence over any part of the document.

1.1.6 The Department shall resolve any question regarding the interpretation of the document after consultation with the SQA.

1.1.7 The Department will review the document at least every five years.

1.1.8 Copies of the document and any subsequent substantive amendments will be placed in the Scottish Parliament Information Centre (SPICe) and on the Scottish Executive Public Bodies website. Copies will also be made available to members of the public on request.

1.2 Founding legislation; status of the SQA

The SQA is established under the Education (Scotland) Act 1996 as amended by the Scottish Qualifications Authority Act 2002.

1.3 Classification of the SQA

1.3.1 For administrative purposes the SQA is classified by the Scottish Executive as an Executive Non-Departmental Public Body (NDPB).

1.3.2 For national accounts purposes the SQA is classified to the central government sector.

1.3.3 References to the SQA include all its subsidiaries and joint ventures that are classified to the public sector for national accounts purposes.

1.4 The functions, duties and powers of the SQA

1.4.1 The SQA is the national body in Scotland responsible for the development, accreditation, assessment, and certification of qualifications other than degrees.

1.4.2 The SQA should separate clearly its functions as accrediting body from those of its awarding body role, to ensure that there is no conflict of interest with other awarding bodies. This separation of functions must apply to the operations of the Accreditation Committee and also to the SQA staffing units supporting the accrediting and awarding functions; and such separation of functions must be capable of being clearly demonstrated publicly. The procedures for accreditation to be adopted by the Accreditation Committee must also be transparent to bodies associated with the accreditation process. The arrangements for separation of functions and the accreditation procedures will be subject to the approval of Scottish Ministers. In the context of SVQs, the SQA and the Qualifications and Curriculum Authority (QCA) will, as far as is possible, be expected to maintain consistent procedures in order to maintain the mutual recognition between SVQs and NVQs as part of a UK framework of work-based qualifications.

1.4.3 The SQA has other powers that enable it to carry out its functions including the power to fix and recover charges for its services in accordance with criteria determined from time to time by Scottish Ministers. The functions, powers and duties of the SQA are detailed in the Education (Scotland) Act 1996 and the SQA Act 2002 .

1.5 Funding arrangements

The SQA will derive its principal income from education authorities, further education colleges, training organisations, higher education institutions, employers and independent schools by means of entry charges. The remainder of its income will be derived from consultancy service charges and other contracts. From time to time the SQA may also receive from the Department funding for specific developmental purposes, e.g. for development of qualifications, courses or related purposes. The SQA will be expected to account to the Department for this funding in the same way as for its other expenditure. The procedure for payment to the SQA of any development funding will be subject to negotiation between the Department and the SQA. Such payments will be made subject to need.

2. **AIM AND OBJECTIVES**

2.1 Overall aim

The overall aim of the SQA is to manage the qualifications system below degree level to allow students to fulfil their potential to participate in the economy, society and communities of Scotland.

2.2 Key functions and objectives

The Education (Scotland) Act 1996 sets out the functions of the SQA. The SQA's key objectives which are developed annually in conjunction with the Scottish Executive are set out in the SQA's corporate and business plans which are approved by Ministers each year (see Section 4 below).

3. **RESPONSIBILITIES AND ACCOUNTABILITY**

3.1 Scottish Ministers

3.1.1 Scottish Ministers are ultimately accountable to the Scottish Parliament for the activities and performance of the SQA. Their responsibilities include:

- approving the policy and performance framework within which the SQA will operate, including objective setting;
- where appropriate, providing information to the Scottish Parliament about the SQA;
- determining the amount of grant and grant in aid to be paid to the SQA and seeking appropriate Parliamentary approval, and determining the criteria by which the SQA will fix and recover charges for its services;
- carrying out responsibilities specified in the founding legislation including appointments to the Board, approval of terms and conditions of staff, and laying of annual reports and accounts before the Parliament.

3.1.2 The Education (Scotland) Act 1996 and the SQA Act 2002 set out Scottish Ministers' legislative powers and duties in respect of the SQA.

3.1.3 Scottish Ministers have a policy interest in all national qualifications in the SQA's portfolio of qualifications. This includes qualifications in the National, Higher National and Scottish Vocational SVQ catalogues.

3.1.4 Scottish Ministers also have an interest in the Scottish Credit and Qualifications Framework, of which the SQA portfolio forms a significant part. This relates both to specific responsibilities for the various providers of certificated attainment and to ensuring that Scotland has an appropriate range of qualifications available to meet the needs of all learners throughout their lives. Scottish Ministers have a particular interest in the links between qualifications at the same level and the various progression routes available within the Framework. Their overall aim is to ensure that the qualifications meet standards of

educational and public acceptability and provide a flexible framework which meets the needs of learners and the economy.

3.1.5 It is recognised, however, that the extent of Scottish Minister's interest and involvement is not uniform across all qualifications. For instance, it is clear that Scottish Ministers require and possess greater influence and interest in the design and assessment of qualifications offered during the compulsory stages of schooling (i.e. up to S4) than exists in relation to some qualifications in Further Education and to degrees offered by Institutions of Higher Education. It will be for the relevant policy Divisions of the Scottish Executive to agree the practical implications of this feature of Scottish Ministers' relationship with the SQA as it affects SQA's responsibilities under section 2 of the Education (Scotland) Act 1996.

3.2 The Head of the Sponsor Department

3.2.1 The Secretary of the Scottish Executive Education Department is appointed by the Principal Accountable Officer for the Scottish Executive as Departmental Accountable Officer for the budget on which the SQA's funding provision is borne. He/she has a statutory duty to be personally accountable for the grant and grant in aid paid by the Scottish Ministers. He/she is also responsible for the overall organisation, management and staffing of the sponsor Department, and for ensuring that there is a high standard of financial management in the Department as a whole. In particular:

- he/she is responsible for ensuring that the financial and other management controls applied by the Department to the SQA are appropriate and sufficient to safeguard public funds, and for monitoring the SQA's compliance with those controls ("public funds" in this context include not only any funds granted to the SQA by Parliament but also any other funds within the stewardship of the SQA);
- he/she must be satisfied that the internal controls applied by the SQA conform to the requirements of regularity, propriety and good financial management;
- he/she is accountable to Parliament for the issue of Scottish Executive funding to the SQA, and for ensuring that the funding is within the scope, and the amount authorised by the appropriate legislation, and that Parliamentary authority has been sought and given where appropriate.

3.2.2 The responsibilities of a Departmental Accountable Officer are set out in more detail in the Scottish Public Finance Manual and the Principal Accounting Officer's Memorandum to Accountable Officers.

3.3 The Sponsoring Division

3.3.1 Within the Scottish Executive Education Department, Qualifications, Assessment and Curriculum Division is the sponsoring division for the SQA. The Division is responsible for ensuring the SQA conducts its business in accordance with the terms of the Education (Scotland) Act 1996 and the SQA Act 2000, the Management Statement and Financial Memorandum and such other guidance as it may issue from time to time. It is also the primary source of advice to Scottish Ministers on the discharge of their responsibilities in

respect of the SQA, and the primary point of contact for the SQA itself within the Department. Many of the policy issues relating to the SQA are not self-contained and other Departments, most notably Enterprise and Lifelong Learning Department, will have some interest in most issues: one of the roles of the sponsor division is to ensure that colleagues' interests are properly taken into account in the Executive's consideration of issues.

3.3.2 The main functions of the sponsoring Division are:

- to advise the Scottish Ministers on an appropriate budget for the SQA taking account of the Scottish Executive's overall public expenditure provision;
- to monitor and review the SQA's performance against targets and against its total financial provision derived from public sector funding; to submit advice to the Departmental Accountable Officer and Scottish Ministers as appropriate; and to take action where appropriate;
- to communicate relevant Scottish Executive policy to the SQA and advise on the interpretation of that policy; and to issue specific guidance to the SQA as necessary.

Other divisions and departments make direct grant or grant in aid funding in respect of specific policy issues and will advise Ministers directly on these.

3.3.3 The SQA will be required to provide the sponsor department with information and advice to enable it to carry out these functions effectively. To facilitate that process the SQA and sponsor division will agree the mechanism for provision of information such as formal reporting, briefing or attendance at SQA management or project groups.

3.4 The Chair of the SQA

3.4.1 Scottish Ministers appoint the Chair under the terms of the Education (Scotland) Act 1996 and the SQA Act 2002.

3.4.2 The Chair of the SQA is personally responsible to Scottish Ministers for ensuring that the SQA's policies are compatible with those of Scottish Ministers and for the probity of the conduct of the SQA's affairs. Communications between the Board and the Minister of the Sponsor Department will normally be through the Chair.

3.4.3 The Chair has a particular responsibility for providing effective strategic leadership on the following matters in particular:

- formulating the Board's strategy for discharging its statutory duties;
- encouraging high standards of propriety and promoting the efficient and effective use of staff and other resources throughout the SQA;
- ensuring that the Board, in reaching decisions, takes proper account of guidance provided by the responsible Ministers or sponsor department;
- representing the views of the Board to the general public; and

- providing an assessment of performance of individual Board members, on request, when they are being considered for re-appointment to the Board.

3.4.4 The Chair should ensure that all members of the Board, when taking up office are fully briefed on the terms of their appointment and on their duties, rights and responsibilities.

3.5 The SQA Board

3.5.1 The Board Members are appointed under the terms of the Education (Scotland) Act 1996 and the SQA Act 2002. Members are appointed in accordance with guidance issued by the Commissioner for Public Appointments.

3.5.2 Board members have corporate responsibility for ensuring that the SQA complies with any statutory or administrative requirements for the use of public funds. Other important responsibilities of Board members are:

- ensuring that high standards of corporate governance are observed at all times;
- establishing the overall strategic direction of the organisation within the policy and resources framework agreed with the responsible Scottish Ministers;
- ensuring that the Board operates within the limits of its statutory authority and any delegated authority agreed with its sponsor department, takes heed of the advice provided by the Advisory Council and operates in accordance with any other conditions relating to the use of public funds;
- ensuring that, in reaching decisions, the Board takes into account any guidance issued by the sponsor department;
- appointing, with Scottish Ministers' approval, a Chief Executive or senior full time official to the SQA.

3.5.3 Members of the Board (including the Chair) must not give the Chief Executive instructions which conflict with the latter's duties as the SQA's Accountable Officer.

3.6 Board Proceedings

3.6.1 Scottish Ministers have the power under section 2 of the SQA Act 2002 to make regulations in respect of the procedure of the SQA Board and of any committee established by the Board as they think fit.

3.6.2 Apart from the specific requirements of the Accreditation and the Audit Committees, the SQA may establish other committees for, or in connection with, the discharge of its functions as it may determine and any such committee may, with the consent of the SQA, appoint sub-committees. SQA committees may include persons who are not members of the SQA.

3.6.3 The SQA must send a copy of the minutes of meetings of the Board and SQA Committees, and of any papers to be considered by the Board and any of its committees, to the Sponsor Department at the same time as they are sent to members of the Board and

committee members. Relevant minutes and Board and Committee papers should also be copied to the relevant contact in the Enterprise and Lifelong Learning Division.

3.7 The Advisory Council of the Scottish Qualifications Authority

3.7.1 The Advisory Council is appointed by Scottish Ministers under the terms of the Scottish Qualifications Authority Act 2002.

3.7.2 The Council's primary role is to consider and provide advice to the SQA on the needs and views of stakeholders, in order to assist the SQA to make appropriate decisions on the development, maintenance and delivery of qualifications and awards. It will consider and advise on matters relating to these qualifications and awards, and on issues of relevance to SQA's stakeholders. In doing so, the Council should consult with and take account of the views of any other persons which it considers to have an interest in the matter prior to providing that advice.

3.7.3 The Council will work with the Board to agree each year an annual plan of work, which will form the core of the Council's work for that year. A copy of the agreed annual plan of work should be provided to the Scottish Executive.

3.7.4 Further information on the Advisory Council is set out in The Memorandum of Understanding between the SQA Board, SQA Advisory Council and the Scottish Executive.

3.8 The Chief Executive

3.8.1 The Chief Executive of the SQA is designated by the Principal Accountable Officer as the SQA's Accountable Officer in accordance with sections 14 and 15 of the Public Finance and Accountability (Scotland) Act 2000.

3.8.2 As the SQA's Accountable Officer the Chief Executive is personally responsible for propriety and regularity in the management of the public funds for which he/she has charge and for the day-to-day operations and management of the SQA. He/she should act in accordance with the terms of this document and within the instructions and guidance in the Scottish Public Finance Manual and other instructions and guidance issued from time to time by Scottish Executive Finance – in particular, the *Memorandum to Accountable Officers Of Other Public Bodies* which the Chief Executive will receive on appointment.

3.8.3 As the SQA's Accountable Officer the Chief Executive shall, in particular:

- advise the Board on the discharge of its responsibilities as set out in this present document and in any other relevant instructions and guidance that may be issued from time to time;
- ensure that all public funds made available to the SQA are used for the purpose for which they were intended by the Parliament, and that such funds, together with the SQA's assets, equipment and staff, are used economically, efficiently and effectively;

- ensure that timely monitoring information and forecasts are provided to the sponsor Department; that corrective action is taken to avoid overspends; and that the Department is notified promptly when overspends are likely;
- ensure that financial considerations are taken fully into account by the board at all stages in reaching and executing its decisions, and that standard financial appraisal techniques are followed as far as is practicable;
- ensure that adequate internal management and financial controls are maintained by the SQA, including effective measures against fraud and theft; and prepare a statement on the system for internal control (SIC) for inclusion in the annual report and accounts;
- establish a comprehensive system of internal delegated authorities which should be notified to all staff, together with a system for regularly reviewing compliance with these delegations;
- ensure that appropriate personnel management policies are maintained;
- be responsible for signing the accounts and for ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by Scottish Ministers; and shall sign a Statement of Accountable Officer's Responsibilities for inclusion in the annual report and accounts;
- take action as set out in the *Memorandum to Accountable Officers Of Other Public Bodies* if the Board, or its Chair, is contemplating a course of action involving a transaction which the Chief Executive considers would infringe the requirements of propriety or regularity, or does not represent prudent or economical administration or efficiency or effectiveness;
- give evidence when summoned before Committees of the Scottish Parliament on the use and stewardship of public funds by the SQA;
- ensure that effective procedures for handling complaints about the SQA are established and made widely known.

3.8.4 The Chief Executive may delegate the day-to-day administration of these Accountable Officer responsibilities to other employees in the SQA. However, he/she shall not assign absolutely to any other person any of the responsibilities set out in this document.

3.8.5 The Chief Executive is the Principal Officer for the purpose of the handling of cases involving the Parliamentary Ombudsman. The Principal Officer is responsible for informing the Departmental Accountable Officer about any complaints accepted by the Parliamentary Ombudsman for investigation, and about the SQA's proposed response to any subsequent recommendations from the Parliamentary Ombudsman.

4. **PLANNING, BUDGETING AND CONTROL**

4.1 The corporate plan

4.1.1 The SQA will submit annually to the Department a draft corporate plan covering 3 years ahead. The SQA will have agreed with the Department the issues to be addressed in the plan and the timetable for its preparation.

4.1.2 The plan will reflect the SQA's statutory duties and, within those duties, the priorities set from time to time by Scottish Ministers.

4.1.3 The plan will set out:

- the SQA's key objectives and associated key performance targets for the 3 forward years and its strategy for achieving these objectives;
- a review of the SQA's performance in the preceding financial year, together with comparable outturns for previous years as agreed with the Department, and an estimate of performance in the current year;
- a forecast of expenditure and income taking account of guidance on resource assumptions and policies provided by the Department at the beginning of the planning round. These forecasts should represent the SQA's best estimate of its available income, including any grant or grant in aid or other public funding;
- additional forecasts derived from alternative scenarios and estimates, and the effects of these on the achievement of the SQA's objectives. In particular, the corporate plan should include options for greater and for lower total provision.

4.1.4 The main elements of the plan – including the key performance targets – will be agreed between the Department and the SQA in the light of the sponsor Department's decisions on policy and resources taken in the context of the Scottish Executive's latest public expenditure decisions; the Department will do this in consultation with other Departments with a funding interest in the SQA.

4.1.5 The corporate plan will be published annually.

4.2 The Business Plan

4.2.1 The first year of the corporate plan, amplified as necessary, will form the basis of the business plan, and will be agreed with the Department. The plan will include key targets for the year immediately ahead.

4.2.2 The business plan will set out the actions that the SQA will take to ensure the successful delivery of all its functions for the year ahead.

4.3 Performance against key targets

4.3.1 The SQA will operate management information and accounting systems which enable it to review its financial and non-financial performance against agreed budgets and targets in line with the corporate and business plans.

4.3.2 The SQA's performance against key targets in the business plan will be reported to the Department on a three-monthly basis. Overall performance will be formally reviewed by officials of the Sponsor Department in consultation with other Departments with an interest in the SQA's performance.

4.3.3 The SQA's performance against key targets will be reported in the SQA's annual report and accounts (see Section 5.1 below).

4.4 Budgeting procedures

4.4.1 In advance of each financial year the Department will send to the SQA a formal statement of its financial provision as approved by the Scottish Ministers and Parliament, in accordance with the Finance and Accountability (Scotland) Act 2000, together with a statement of any change in policies affecting the SQA in the coming financial year.

4.4.2 As part of its business plan, and taking account of its approved financial provision, the SQA will prepare a budget of estimated payments and receipts, including a profile of expected expenditure and of draw-down of any grant, grant in aid and/or other income over the year. The criteria for fixing and recovering entry charges and the criteria for Scottish Ministers' approval of contracts are set out in the financial memorandum.

4.4.3 Once the budget has been approved in the annual Budget Act the SQA will have authority to incur expenditure, from 1 April of that financial year, in pursuit of its responsibilities under the Education (Scotland) Act 1996 and the SQA Act 2002 without further reference to the Department, on the following conditions:

- the SQA will comply with the delegations set out in this document. These delegations may not be altered without the prior agreement of the Department;
- inclusion of any planned and approved expenditure in the SQA's budget will not remove the need to seek formal Departmental approval where any proposed expenditure is outside the delegated limits or is for new schemes not previously agreed;
- the SQA will provide the Department with such information about its operations, performance individual projects or other expenditure as the Department may reasonably require;
- the SQA will notify the Department immediately and formally if it becomes apparent at any time that an overspend of the estimates of its expenditure over the year, as agreed in the Budget Act for that year, is likely to occur;
- notwithstanding the arrangements below, the SQA will notify the Department immediately if it becomes apparent that an underspend of any grant funding is likely to occur.

4.4.4 The SQA will also provide the Department with:

- a monthly analysis of financial outturn against forecasts of expenditure and income as at the last day of the month, giving reasons for variances beyond plus or minus 5 per cent of profile and indicating any remedial action proposed. This analysis should include details of estimated outturn for each main budget heading for the full financial year.
- a financial statement every month showing payments and any cash receipts in the previous month, together with the accumulated net cash payments to date and the balance of cash remaining available to the SQA for the year. A summary of the estimated outturn for the full financial year and the anticipated cash balance should also be provided;

4.5 Internal audit

4.5.1 The SQA will establish and maintain arrangements for internal audit in accordance with the objectives, standards, scope and practices set out in Treasury's Government Internal Audit Manual and with the guidance provided in the Government Information Systems Audit Manual.

4.5.2 The Department will assess the effectiveness of the SQA's internal audit arrangements by periodic peer reviews by its Internal Audit Service, by scrutiny of the plans and reports prepared by the SQA's internal auditor on future and past activity respectively. Once these plans and reports have been approved by the SQA's Accountable Officer they will be forwarded as soon as possible in each financial year to the sponsoring Division for scrutiny. If there are any problems or queries the sponsoring Division should consult SE Audit Services. In addition, the Department reserves a right of access to carry out independent reviews of internal audit.

4.5.3 The SQA will set up an Audit Committee as a committee of the Board in accordance with relevant guidance in the Scottish Public Finance Manual.

5. **EXTERNAL ACCOUNTABILITY**

5.1 The annual report and accounts

5.1.1 After the end of each financial year the SQA shall publish an annual report of its activities, together with its audited annual accounts after these documents have been laid in the Scottish Parliament. The report will also cover the activities of any corporate bodies under control of the SQA and should have been submitted to the Department on a date agreed with the Department.

5.1.2 The accounts must be prepared in accordance with the relevant statutes, the specific Accounts Direction issued by Scottish Ministers and with HM Treasury's "Executive NDPB's: Annual Reports and Accounts Guidance". The accounts should be submitted to the Department and the Auditor General for Scotland no later than 30 September following the end of the financial year to which the accounts relate.

5.1.3 The annual report and accounts will comply with the accounting and disclosure requirements given in the Scottish Public Finance Manual and “Executive NDPBs: Annual Reports and Accounts Guidance” as amended or augmented from time to time and with any other guidance which Scottish Ministers may issue from time to time in respect of accounts.

5.1.4 The report and accounts will outline the SQA’s main activities and performance during the previous financial year and will be laid before the Scottish Parliament by Scottish Ministers within four months of the end of the financial year. The report will also set out in summary form the SQA’s forward plans.

5.2 External audit

The Auditor General for Scotland (AGS) is the SQA’s statutory auditor. AGS will appoint auditors to audit the 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 will 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.

5.3 External auditing procedures

5.3.1 The auditor will seek to ensure that the annual accounts have been prepared in accordance with the relevant statutes and any relevant Accounts Direction or guidance issued by Scottish Ministers.

5.3.2 Information on performance against key financial targets will be included in the notes to the accounts, and will therefore be within the scope of the audit.

5.3.3 The SQA will instruct its auditors to send copies of all management letters and correspondence relating to those letters to the Departmental Accountable Officer, to whom the SQA’s replies should also be copied.

6. **STAFF MANAGEMENT**

Within the arrangements approved by Scottish Ministers the SQA will have responsibility for the recruitment, retention and motivation of its staff. The SQA will ensure that:

- the recruitment of staff is based on fair and open competition and equal opportunities;
- the level and structure of its staffing, including gradings and numbers of staff, is appropriate to its functions and the requirements of efficiency, effectiveness and economy;
- the performance of staff at all levels is satisfactorily appraised for the purposes of performance pay and, where appropriate, promotion;

- its staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve the SQA's objectives;
- proper consultation with staff takes place;
- adequate grievance and disciplinary procedures are in place;
- a code of guidance for staff is in place based on the *Model Code for Staff of Executive Non-Departmental Public Bodies*.
- it develops terms and conditions of service and operates pension schemes for all SQA staff, which meet Scottish Ministers' requirements and approval;

7. **REVIEWING THE ROLE OF THE SQA**

7.1 The Department will conduct a Policy and Financial Management Review of the SQA at least every five years or at such other intervals as the Department may determine. Such reviews will be in two stages.

7.2 The initial stage of the review will focus on whether the SQA continues to be required; whether the existing status is correct; and whether the functions in question are being delivered in the most effective manner. As part of this examination there will be a thorough examination of the case for abolition; transferring all or part of the functions to another body or commercial organisation; rationalisation; and continuation of the existing arrangements.

7.3 If it is decided that the SQA should continue, the review will focus on the efficiency and effectiveness with which the SQA carries out its activities; its financial and other management systems; and the efficiency and effectiveness of the Department's procedures for monitoring the SQA's activities.

8. FINANCIAL MEMORANDUM

8.1 INTRODUCTION

This financial memorandum supplements the management statement. It sets out in greater detail certain aspects of the financial framework within which the SQA is required to operate. The memorandum must be read in conjunction with the Management Statement.

8.2. INCOME

8.2.1 Grant

8.2.1.1 Grant will be paid to the SQA on the basis of a written application from the SQA showing evidence of need.

8.2.1.2 The SQA's application should be signed by the SQA's Director of Finance, or by a person notified by him to the Department as authorised to sign on the Director's behalf.

8.2.1.3 The application must certify that conditions applying to the issue of grant have been observed to date and that further grant is now required for purposes appropriate to the SQA's statutory functions.

8.2.2 Fees and charges

8.2.2.1 Fees or charges for services or goods supplied by the SQA should be determined in accordance with the Scottish Public Finance Manual and should be set to recover full costs within each qualifications block unless the Department agrees otherwise.

8.2.2.2 Subject to the Scottish Public Finance Manual and to Government policy on selling into wider markets the SQA should seek to maximise receipts from non-Exchequer sources where this is consistent with the SQA's main functions and is in line with its corporate plan agreed with the department.

8.2.2.3 In setting its entry charges the SQA shall:

- set entry charges in accordance with the Scottish Public Finance Manual;
- have due regard to its duty as a public body and to the public purse, bearing in mind that the level of entry charges will have implications for other public sector expenditure (e.g. local authority, further and higher education, and employment training schemes);
- seek the approval of Scottish Ministers to proposed entry charges as part of the annual budget exercises; and
- notify the Convention of Scottish Local Authorities (CoSLA), Universities Scotland (US), the Scottish Council of Independent Schools (SCIS), the CBI Scotland and the Association of Scottish Colleges (ASC) of changes to entry charges.

8.2.3 Proceeds from sales of land and buildings

Disposals of land and buildings are dealt with in Section 8.7.2 below.

8.2.4 Receipts in year

8.2.4.1 If the receipts realised, or expected to be realised, in the year are less than estimated the SQA will ensure a reduction in its gross payments so that the authorised provision is not exceeded.

8.2.4.2 If receipts realised or expected to be realised in the year are more than estimated, the Board may apply to the Department to retain such excess income for specified additional expenditure within the current financial year, without an offsetting reduction to grant. If an application is refused the grant may be reduced or alternatively the excess receipts can be surrendered to the Exchequer via the sponsor department.

8.2.5 Gifts and bequests received

The SQA is free to retain any gifts, bequest or similar donations. These will be treated as receipts. The SQA must keep a written record of gifts, bequests and donations, given and received, and of their estimated value and whether they are disposed of or retained.

8.2.6 General

It is the duty of the SQA to ensure that all income is used only in accordance with the terms of this Memorandum. To enable Scottish Ministers to monitor the SQA's performance of that duty, officers of The Scottish Executive, or its agents, shall have right of access to the SQA's records, documentation, ledgers, computerised accounting information etc; and the SQA shall produce such reports, accounts, and estimates as Scottish Ministers may from time to time require.

8.3. **EXPENDITURE - GENERAL PRINCIPLES**

8.3.1 Expenditure not proposed in the budget

The SQA shall not, without prior Departmental approval, enter into any undertaking to incur any expenditure not provided for in the annual budget approved by the Department.

8.3.2 Purchasing and Tendering

The SQA is required to comply with the Scottish Executive and EU rules on procurement.

8.3.3 Value for money

Procurement of works, equipment, goods and services should be based on value for money, ie quality (in terms of fitness for purpose) and delivery against price. Where appropriate, a full option appraisal should be carried out before procurement decisions are taken.

8.3.4 Competition

8.3.4.1 Contracts shall be placed on a competitive basis, and the lowest cost tender accepted, unless there are good reasons to the contrary.

8.3.4.2 The SQA shall send to the Department, not later than one month after the end of each financial year, an exception report for that year, with reasons, listing those cases with a cost of under £10,000 but over £5,000 in which competitive tendering was not employed or in which the lowest tender was not accepted.

8.3.4.3 Wherever practicable the SQA shall expose activities undertaken by its own employees to outside competition and arrange for them to be contracted out where this would provide improved value for money.

8.3.5 Prudence

The SQA shall take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract.

8.3.6 Timeliness in paying bills

The SQA should collect receipts and pay all matured and properly authorised invoices in accordance with the terms of contracts or within 30 days, as provided for in paragraph 21.2.6 of Government Accounting. The SQA should comply with the British Standard for Achieving Good Payment Performance in Commercial Transactions (BS 7890).

8.3.7 Novel, contentious or repercussive proposals

The SQA must obtain the approval of the Department:

- before incurring any expenditure for any purpose which is or might be considered novel or contentious, or which has or could have significant future cost implication, including on staff benefits;
- before making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the Department;
- before making any change of policy or practice which has wider financial implications (eg because it might prove repercussive among other public sector bodies) or which may significantly affect the future level of resources required.
- for any contract, outwith the terms of 8.5.1.2, which exceeds a cost of £500,000 to the SQA.

8.4. **EXPENDITURE ON STAFF**

8.4.1 Staff costs

Subject to its delegated levels of authority the SQA will ensure that the creation of any additional posts does not incur forward commitments which will exceed its ability to pay for them.

8.4.2 Pay and conditions of service

8.4.2.1 The staff of the SQA, whether on permanent or temporary contract, will be subject to levels of remuneration and general terms and conditions of service (including superannuation) which have been approved by the Scottish Ministers.

8.4.2.2 The travel expenses of Board Members are paid at the Scottish Executive rate. The actual cost of accommodation and meals is reimbursed.

8.4.2.3 The SQA will, in accordance with Public Sector Pay Policy, operate a performance-related pay scheme as agreed with the sponsor Department. The annual aggregate pay budget must also be approved by the Department in accordance with the prevailing Public Sector Pay Policy and must be contained within the Department's budget.

8.4.3 Pensions; redundancy/compensation

8.4.3.1 The SQA's staff will normally be eligible for pensions as admitted members of the Strathclyde Pension Fund.

8.4.3.2 Any proposal by the SQA to move from the existing pension arrangements, or to pay any redundancy or compensation for loss of office, requires prior consultation with and the agreement of the Department and, where appropriate, the agreement of the Scottish Public Pensions Agency to promote the necessary amending legislation.

8.4.4 Control of staff numbers

8.4.4.1 Specific Departmental approval is required for the grading and creation of posts at Director level (i.e. the level immediately below that of Chief Executive).

8.4.4.2 SQA may create and re-grade any posts below Director level without Departmental approval but the Sponsor Division should be informed of significant changes.

8.4.4.3 Major organisational or staff restructuring requires the prior approval of the Department.

8.5. **EXPENDITURE OTHER THAN ON STAFF**

8.5.1 Capital expenditure

8.5.1.1 Capital expenditure is expenditure incurred in the creation or enhancement of a fixed asset. Fixed assets are assets with an expected life of more than 1 year held for use on a continuous basis e.g. land and buildings, patents.

8.5.1.2 The SQA may spend up to £100,000 on individual capital items (excluding motor vehicles) or projects; beyond that delegated limit, the Department's prior authority must be obtained before expenditure is incurred. (See also para 8.5.7 below on Public/Private Partnerships.)

8.5.1.3 Applications to the Department for approval of large-scale projects should be supported by formal notification that appropriate consideration has been given, and the project duly authorised, by the Board. Regular reports on the progress of such projects should be submitted to the Department.

8.5.2 Virement

Subject to the immediately following paragraph the SQA may reallocate (vire) funds between the headings in its budget without the Department's prior agreement, provided that no heading is increased or decreased by more than 10 per cent and provided that in aggregate the SQA's net payments do not exceed the total approved Budget. However, the running costs/administration heading may not be increased without the Department's agreement.

8.5.3 Borrowing, lending, guarantees, indemnities and contingent liabilities (including letters of comfort)

The SQA shall not, without the Department's prior written consent, borrow (including temporary borrowing such as prearranged overdraft facilities), lend money, charge any asset or security, give any guarantee or indemnities or letters of comfort, or incur any other contingent liability (as defined in the Scottish Public Finance Manual), whether or not in a legally binding form, to third parties. This excludes any previously agreed facilities to offer staff loans to purchase annual bus or train passes or to offer senior staff/official car users loans to purchase cars.

8.5.4 Grant or loan schemes

8.5.4.1 All grant or loan schemes proposed by the SQA must be approved by the Department before any payments are issued. Payments of grant or loan must be made properly and in accordance with the guidelines for the appropriate schemes.

8.5.4.2 The SQA shall ensure that any grants made to organisations which receive the major part of their funding from the SQA are accompanied by appropriate conditions, including obligations to ensure that the books and records of such organisations are readily available for inspection by the Department.

8.5.4.3 Please also see section 8.7 below 'Recovery of grant-financed assets'.

8.5.5 Gifts; write-offs, losses and other special payments

8.5.5.1 Proposals for making gifts or other special payments including write-offs outside the SQA's delegated limits must have the prior approval of the Department. Gifts to staff are subject to DAO (GEN) 1/94.

8.5.5.2 The SQA has delegated powers to incur expenditure on these items as defined in the Scottish Public Finance Manual up to and including £500 in individual cases. In all other instances – and in any case of doubt – the SQA should seek the Department’s express authority.

8.5.6 Leasing/Contracts

8.5.6.1 Before entering into any lease the SQA must be able, if requested to do so, to demonstrate to the sponsor Department that the lease offers better value for money than purchase.

8.5.6.2 The SQA must regularly update the Department on its developing portfolio of international work, taking account of existing channels such as the Scottish Education and Training Export Group (SETEG) and linkages with the Department’s International Relations Branch.

8.5.7 Public/Private Partnerships

8.5.7.1 The SQA should seek opportunities to enter into Public/Private Partnership where this is more cost effective than conventional procurement. The sponsor Department should be consulted in all such cases.

8.5.7.2 The SQA should also consult the sponsor Department in all cases where different cash flow projections may result in delegated spending authority being breached.

8.5.8 Insurance

With the exception of third party insurance required by the Road Traffic Acts and any other insurance which is a statutory obligation, the SQA shall not take out any insurance without the prior approval of the Department.

8.5.9 Financial investments

The SQA shall not make any financial investments without the prior approval of the Department.

8.5.10 Unspent end-year balances of grant

8.5.10.1 The SQA may not carry over unspent cash balances from one financial year to another of more than an amount agreed with the Sponsor Department. Any cash balances in excess of that amount will be taken into account in any payment of grant in the following year.

8.5.10.2 The retained balances cannot be used to increase any of the various budget sub-heads by more than the limits set out in this document. Grant not drawn down by the end of the financial year will lapse.

8.6. **BANKING; CASH MANAGEMENT**

8.6.1 Banking arrangements

The SQA's Chief Executive is responsible for ensuring that the SQA's banking arrangements are carried out efficiently, economically and effectively. He should ensure:

- that these arrangements are suitably structured and represent value-for-money;
- that efficient and cost effective methods are used for the transmission of money;
- that the SQA's banking arrangements shall be kept separate and distinct from those of any other person, body or organisation;
- that these arrangements should be reviewed at least every two years, with a fundamental review, usually leading to market testing, at least every three to five years.
- that sufficient information about banking arrangements is supplied to the Department's Accountable Officer to enable the latter to satisfy his own responsibilities.

8.6.2 Cash balances

Cash balances accumulated during the course of the year accumulated from grant or other Exchequer funds should be kept at the minimum level consistent with the efficient operation of the SQA.

8.6.3 Cash surpluses

Any cash surpluses must be placed on deposit until they can be used. Any interest earned on these deposits shall be treated as a receipt from an Exchequer source and grant may be reduced by the equivalent amount.

8.7. **ASSET MANAGEMENT**

8.7.1 Register of assets

The SQA shall maintain an accurate and up-to-date register of its assets.

8.7.2 Management and disposal of assets

8.7.2.1 The SQA shall at all times use its assets in the most cost efficient manner, and dispose of those assets which are surplus to requirements. In order to facilitate the management of its capital and revenue expenditure on property the SQA shall develop and maintain an Asset Management Plan to support its Property Strategy. Assets shall wherever practicable be sold by auction or competitive tender unless otherwise agreed by the Department. Assets should not be disposed of at less than market value.

8.7.2.2 The Department should be consulted in advance for advice regarding any proposal to acquire new property. The acquisition and disposal of assets should be carried out in accordance with the guidance in the Scottish Public Finance Manual.

8.7.2.3 The SQA shall not, without the Department's agreement, dispose of any assets which have been purchased with (or improved or developed by) Exchequer funds. Where the Exchequer's due share from the disposal of such assets amounts to more than £1 million (or where the disposal has unusual features of which the Scottish Parliament should be aware) the receipts should be surrendered to the Department.

8.7.2.4 If the Department decides that the SQA should have the benefit of these receipts the Department may seek to appropriate them in aid of a relevant increase in the grant, for which it will obtain the Scottish Parliament's approval.

8.7.2.5 If the Department decides that the receipts are to be retained by the Department then the income not applied should be surrendered to the Scottish Consolidated Fund. Where the Exchequer's share is less than £1 million and unusual features are in evidence, the receipts should be dealt with in line with the rules on surplus in-year receipts (see para 8.2.4.2 above).

8.7.3 Recovery of grant-financed assets

8.7.3.1 Where the SQA has financed expenditure on capital assets by third parties, the SQA should make appropriate arrangements to ensure that assets are not disposed of without the SQA's prior consent.

8.7.3.2 The SQA shall therefore ensure that such repayment conditions are sufficient to secure the repayment of the Exchequer's due share of the proceeds of the sale, in order that funds may be surrendered to the Department.

8.7.3.3 The SQA shall ensure that if the assets created by any grants made by the SQA cease to be used by the recipient of the grant for the intended purpose, a proper proportion of the value of the asset shall be repaid to the SQA for surrender to the Department.

8.7.3.4 The amounts recoverable under the procedures in paras 8.7.3.2 and 8.7.3.3 shall be calculated by reference to the current market value of the asset and in proportion to the Exchequer's original investment(s) in the asset.

8.8. **COMPLIANCE WITH INSTRUCTIONS AND GUIDANCE**

The SQA shall comply with the instructions or guidance set out in:

- this management statement and financial memorandum;
- Scottish Public Finance Manual;
- *Non-Departmental Public bodies – a Guide for Departments* (the "NDPB Guide"), published by the Cabinet Office;
- the Accounts Direction issued by the Scottish Ministers;
- The Government Internal Audit Manual;

- *Executive NDPBs – Annual Reports and Accounts Guidance*, published by the Treasury;
- relevant *Dear Accountable Officer* letters;
- the Treasury guidance document *Regularity and Propriety*;
- other relevant instructions and guidance issued by Central Departments and the sponsor Department;
- recommendations made by the Public Accounts Committee or other UK Parliamentary authority which have been accepted by the Scottish Parliament and which are relevant to the SQA.